MADURAI KAMARAJ UNIVERSITY
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INTRODUCTION TO RETAILING

MBA (Retail Management) - III Year

Paper - I

INTRODUCTION TO RETAILING

2590

Madurai Kamaraj University

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SYLLABUS: INTRODUCTION TO RETAILING (2590)

UNIT 1

Definition and Scope of Retailing; Retailer; Evolution of Retailing Industry.

UNIT 2

Retailer's Role in the Distribution Channel; Vertical Marketing System.

UNIT 3

Functions of Retailers; Benefits of Retailing; Benefits to Customers; Benefits to Manufactures and Wholesalers.

UNIT 4

Trends in Retailing; Global Retail Scenario; Indian Retail Scenario; Prospects of Retailing in India.

UNIT 5

Retail Economics: Benefits to the Economy; Retailing Environment; The Legal Environment; The Economic Environment; The Technological Environment; The Global Environment.

UNIT 6

The Competitive Environment; Types of Competition; Analyzing Competition.

UNIT 7

Indian Experience in Retailing; Impact of FDI in Indian Context.

UNIT 8

Retail Organization and Formats: Retail Ownership; Retail Formats; Store Based Formats; Non Store Formats; Generalist and Specialist Retailers; Services Retailing.

UNIT 9

Retailing and Consumption; The Changing Consumer Demographics; Life Style Changes; Shopping Behvaviour; Retail Outlet Choice.

UNIT 10

Legal and Ethical Issues in Retailing.

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INTRODUCTION

NOTES

The word "Retailing" is derived from an old French word "retaillier", which means "to cut into small pieces". The French consumers requested the traders to cut only that much cloth from the bales that would be necessary for their dress and that is how they coined the term. Retailing involves selling many different products and services, either from a store location or in direct selling through vending machines and in-home presentations, mail order, and so on. Retailing is a massive industry that pervades all our lives. Virtually all of us shop, sometimes for pleasure and sometimes because we have to. But when and how did it all begin? The answer is probably to do with surpluses. As man got better at cultivating his land, he found that even after feeding his family and animals and putting food into storage, there was some left over. Rather than waste this surplus, he traded it with others for their surplus or perhaps tools or other objects. Retailing evolved from the shanties and melas to the mom and pop stores, and the next phase of evolution saw the growth of franchise stores. The franchise stores boom happened through the 70s and 80s along with India's textile revolution. Most of the franchise formats were enabled by textile brands such as Reliance's, Vimal, Bombay Dyeing, etc. After this phase India's retailing developed in the high streets of major metros. For instance, retailing outlets were frequently visited on Brigade Road, Bangalore, Commercial Street, Bangalore, Usman Road and Pondy Bazaar in Chennai, Connaught Place and South Extension in New Delhi, Lake Market and Gariahat Market or Park Street in Kolkata. In the 90s Indian retailing witnessed its growth in department stores with the entry of Shoppers' Stop in Mumbai and Bangalore. closely followed by Pantaloons in Kolkata. After this many apparel stores such as Westside of Tata, Lifestyle from the Dubai-based Landmark group opened in India. The late 90s introduced India to suprmarkets such as Foodworld which started first in Chennai. A transformation in traditional categories like jewellery with the opening of many jewellery brand stores in India, like Tanishq, Kitilals, Oysterbay, etc. has fuelled the growth of modern retailing. Multinationals in brand retailing are now entering through the franchise route while many hypermarkets like *Big Bazaar* have opened. Malls are opening at a very fast pace in India and currently there are almost 220 operational malls in India.

UNIT 1 RETAILING: MEANING AND EVOLUTION

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Structure

1.0 INTRODUCTION

Today, it is essential to undertake a study of "retailing". This is because of two factors: 'the growth rate of the retail sector' and 'the opportunities that it provides'.

Earlier, most of the retailing was under the unorganized sector, which did not require any professional management skills. Now due to the strengthening of the organised sector, there is a heightened demand for retail management professionals.

For a student of marketing, retailing is important because of its career opportunities. For a country, retailing is important for its contribution to economic growth. For a consumer, retailing provides convenience and variety apart from many other benefits. Thus the benefit of retailing is far reaching and broad.

It is important to understand what we mean by retailing before we continue with our discussion on it.

1.1 UNIT OBJECTIVES

- Understanding the meaning and scope of retailing
- Differentiating between retail, retailing, and retailer
- Understanding the evolution of the retail industry

1.2 ORIGIN AND DEFINITON

The word "Retailing" is derived from an old French word "retaillier", which means "to cut into small pieces". The French consumers requested the traders to cut only that much cloth from the bales that would be necessary for their dress and that is how they coined the term.

Though the term "to cut into small pieces" refers to one of the fundamental retailing activities which is "to buy in larger quantities and sell in smaller quantities", it is not enough to understand retailing. The following definitions help us to comprehend the terms retail, retailing and retailer.

Retail can be defined as "The sale of goods and services in small quantities directly to consumers." From this perspective, retail involves all those activities performed, in order to deal with products and services in retail.

"A company or an organization that purchases products from individuals or companies with the intent to resell those goods and services to the ultimate or final, consumer." Retailing from this perspective can be defined as all those formal business activities that a retailer does.

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Thus a retailer sells a variety of products and services through different channels-shops, directly via vendors, demonstrations at home, orders by mail and many more.

Any organization selling to consumers – whether it is a manufacturer, wholesaler, or retailer – is doing retailing. It does not matter how the goods or services are sold (by person, mail, telephone, vending machine or Internet) or where they are sold (in a store, on the street, or in the consumer's home).

1.3 SCOPE OF RETAILING

The scope of retailing can be understood better if we understand the role of a retailer in a distribution channel. Acting as a liaison between a manufacturer/ distributor and the ultimate consumer, the retailer's major objective is to provide the right products at the right price at a right place. Retailers are the final businessmen in a distribution channel who link the manufacturers with the consumers. To the manufacturer, the retailer provides the market for selling his products. Retailing forms a part of marketing mix, *i.e.*, the four P's: Product, Price, Promotion and Place. Place represents the distribution to which, retailing belongs. According to the old thinking, retailing was only about inventory and working capital management. But retailing is also about understanding the consumer and his shopping behaviour, location science, supply chain management, and so on.

1.4 THE GROWTH AND DEVELOPMENT OF RETAILING

Although retailing is here to stay as an inseparable part of our lives, it was not always so. We know that in the bygone era, man grew just enough to meet his basic needs. However, things began to change once he improved his methods of cultivation and found that he had some left even after satisfying the needs of his family, animals and keeping aside stock for a rainy day. It was this leftover surplus that he decided to trade or barter for items that could meet his additional requirements.

One thing led to another; some people with large tracts of land began to produce more with the objective of selling and making money, while others continued to grow. This led to division of labour in spheres other than food, such as tools, jewellery, crockery and more. With the coming up of central markets where producers gathered regularly to exchange goods, informal markets became formal, finally resulting in permanent shops which required to be well stocked. This was the beginning of the Retail Trade. There were also peddlers or traders who sold their goods by moving from place to place. It was this selling of goods from a regular market that came to be called retailing.

Some permanent shopkeepers decided to store their extra stock in another market place which could probably be managed by a member of the family. This was the earliest form of a retail chain. The major boost to the retail industry came during the 19th century. The breakaway from the traditional style of trading was possible with improved telegraph and rail communications and logistics. At the beginning of the Industrial Revolution departmental and discount stores were in a nascent stage. Increased industrial development gave an impetus to growth of retailing. Table 1.1 gives a dateline for the evolution of retail.

Table 1.1: The Evolution of Retail

Before 1830	*Central markets, Peddlers, Fixed shops – General stores*
1830–1860	First departmental stores – Bone march store (1838), Alexander Tureny Stewart (1846), F&R Lazarus (1851), R.H. Macy (1858), Marshall Field's (1852/1881), Zions Cooperative Mercantile Institution (1870), Wanamaker's (1877)
1860–1870	Chain stores A&P (1859) Lord&Taylor (expansions–1873-1970) JC Penny, Lord & Taylor, Wool worth
1870–1890	Mail Order – Montgomery ward (1872), Sears (1886)
1880–1890	Variety stores (five and dime) – Wool worth (1878)
1880–1930	Supermarkets – Kroger (1883), Big Bear (1933)
1890	Discount stores – SS Kresge (1899 – now Kmart)
1910	Self service stores – Piggly Wiggly (1916)
1980	Television Shopping – QVC (1986), HSN (1982)
1990	Infomercials and E-commerce
AFTER 90s	Emerging formats – Concept stores – Disney Store (1990)

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The pioneer traveling salesman or peddlers had many names - hawkers, chapmen. Mostly of New England origin in the colonial era, they moved from farm to farm with their trunks on their backs. When roads became better, they traveled in wagons. The goods they sold comprised combs, pins, knives, woolens, books, in exchange for farm products, which they usually resold at a profit in stores or markets in towns. It was in the early 1830s that the organized retail format, the Departmental Stores made its presence, followed by chain stores, discount stores, variety stores, mail order, concept stores and the like.

Tracing the evolution of retail in India, it can be seen that the earliest system of retail included *haats, melas* and *mandis*. The caste system can be taken as the earliest record regarding retailers. The people who were involved in trade were categorized into the vysya caste system. The term *baniya* today is synonymous with the shopkeeper, but refers to the people who would sit under the banyan tree and sell their wares. Retail in India has evolved through three phases, the traditional formats, the established formats and the emerging formats. The traditional for[illegible] *[illegible]ats, melas, mandis*, etc: the established formats are *kirana, pan beedi*, public distribution systems, departmental stores, etc; and the emerging formats are multiplexes, ma[illegible]

Contemporary retail chains that dominate India are Pub[illegible] Distribution System (PDS), Post Offices, and Khadi & Village Industries (KVIC) stores, which are organised by the government. On the unorganised side, *Kirana* and *pan beedi* store formats outnumber other formats. The PDS is the single largest retail chain existing in the country. It ensures availability of essential commodities like wheat, rice, sugar, edible oils and kerosene to the consumers, through a network of outlets or Fair Price Shops (FPS). There is a network of about 4.61 lakh PDS retail outlets in the country. PDS is operated under the joint responsibility of the Central and State Governments. The Central Government bears the responsibility of procurement, storage, transportation and bulk allocation of food grains, rice and wheat at subsidized prices, while the responsibility of distribution to consumers through FPSs rests with the State Governments. The public distribution of grains in India has its origin in the rationing system introduced by the British during World War II. The system was started in 1939 in Bombay and was subsequently extended to other cities and towns. By 1946, as many as 771 cities/towns were covered under this system of public distribution. After the war this system was abolished only to be reintroduced after Independence in 1950 in the face of renewed inflationary pressures on the economy. However, the system catered chiefly to urban needs, so much so that it almost became redundant in 1956, when the First Five-Year plan ended, with foodgrain becoming easily available. It was then that the PDS came back, offering additional essential commodities like sugar, cooking coal, and kerosene

Check Your Progress

1. Which French word is 'retailer' derived from and what does it mean?
2. How is the concept of surplus related to retailing?
3. During which year did the first departmental store come up?
4. What are the biggest governmental retail chains in India?
5. What are the full forms of KVIC, PDS and FP?

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oil. The number of ration shops also increased from 18,000 in 1957 to 51,000 in 1961. By the time the second Five-Year Plan ended, the PDS had become a system that provided social safety, offered reasonably priced foodgrains to ensure greater reach to the common man, and kept a check on the speculative tendencies in the market. In the 40 years of its functioning, the PDS has been effective in preventing famines in India.

Of all the postal network in the World, India's is the largest. Records say that as on 31-3-2003, we had, 1,55,618 Post Offices, including 1,39,081 in rural areas. From the time of Independence, the number has grown almost seven times from 23,344 Post Offices, mainly in urban areas and certain villages. A post office caters to an area of 21.13 sq. km. and a population of 6,602 on an average. In the initial years of establishment of the Indian Postal Department, very few areas had telegraph facilities. Until Shimla acquired the first telephone exchange in 1914, our sole means of communication has the Postal Department. Alternative means such as fax machines, the Internet, e-mail, etc. are a recent phenomenon.

The growth of our postal service since Independence is truly remarkable. In 1953-54, we had 4600 million post offices handling 2700 million articles, each going through ten hands on its journey from origin to destination. In order to do this speedily and economically, public cooperation is important.

The number of post offices in 1947 was grossly inadequate for the size of a country like India. Although the national government acted speedily to augment the postal and telegraphic facilities, the disruptions of drain services during Partition affected the system of communication as well. In East Punjab nearly 530 post offices were suspended, while 400 were attacked by rioters. Emergency measures such as mail motor and chartered plane services were introduced between Delhi and Ferozpur, as was a special air-mail service between Calcutta (now Kolkata) and Guwahati. And because Kashmir had been invaded by Pakistani raiders, mail from Jammu to Kashmir was carried by a new air in service.

Despite such obstacles, Indian postal facilities grew, in fact the member of post offices doubled, within five years, to the current 1,60,00. We have general post-offices in the bigger cities employing thousands of workers along with the village office managed/run by a school teacher or grocer.

Today's post office is very different to the ones that existed earlier. The services today go beyond communication, sprawling through the spectrum of financial services like savings and life insurance. It is slowly becoming a one-stop retail for purchasing bus passes, paying of bills and more.

The Khadi & Village Industries was set up post Independence. Today, there are more than 7,000 KVIC stores across the country. The Khadi and Village Industries Commission (KVIC) is a statutory body created by an Act of Parliament. Established in April 1957, it took over the work of the former All India Khadi and Village Industries Board. The objectives of KVIC include

1. The social objective of providing employment
2. The economic objective of producing saleable articles
3. The wider objective of creating self-reliance amongst the poor and building a strong rural community spirit.

With regard to the first objective, till 2005 it had provided employment to 76,78,000 people. The second objective can be measured through the sales it has achieved. The sales figure by the end of 2005 was Rs 13,105 crore. Though its functions are varied and numerous, the major function is to plan, organise and implement programmes for the development of khadi and other village industries in rural areas in coordination with other agencies engaged in rural development. The product categories include khadi (which is cloth woven by hand using handspun yarn only. Natural fibers namely cotton, wool and silk are used in spinning and the production activity is carried out in rural areas), honey, fibre products, processed foods and vegetable products, hand made paper products, leather products, pottery, village

oil, *agarbatti* (incense sticks), soap, palmgur and palm products, cottage matches, processed cereals and pulses.

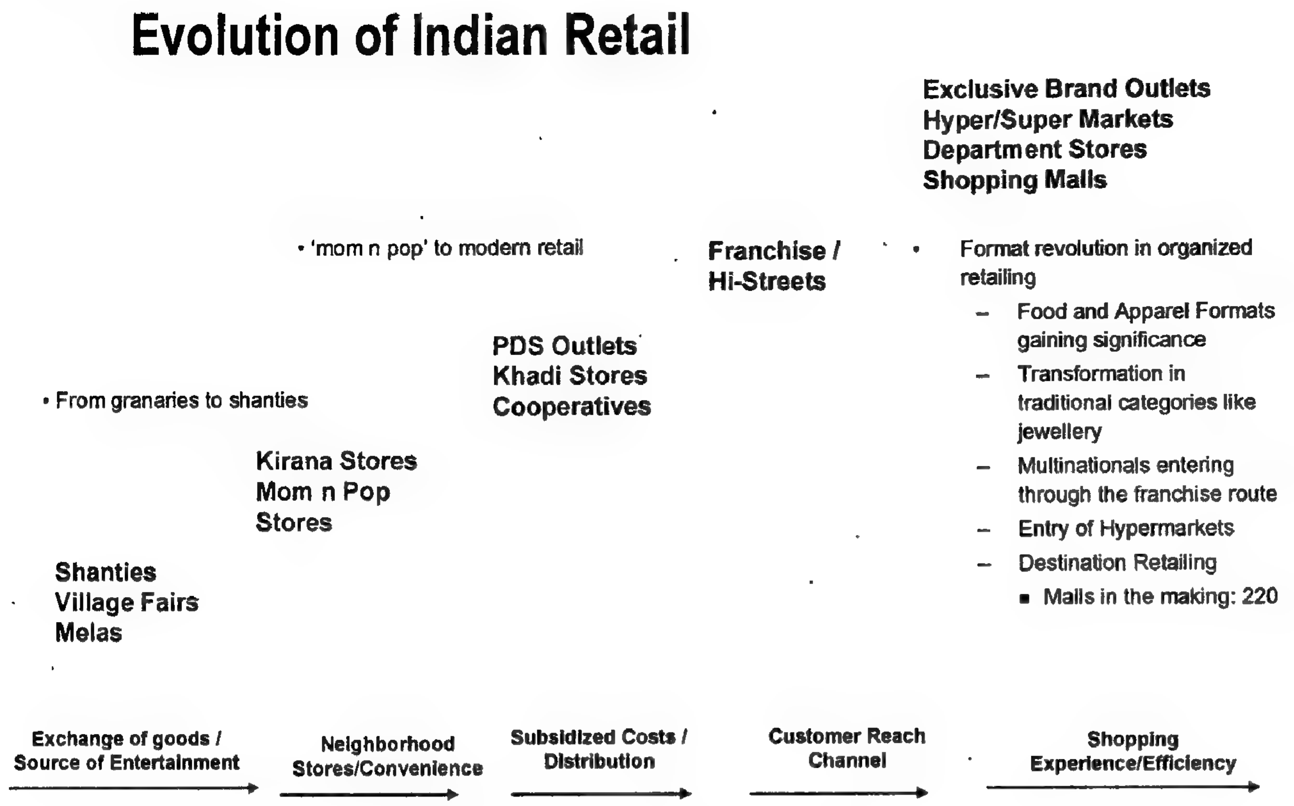

Figure1.1: The Evolution of Indian Retail

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Apart from the national level retail chains, the state level chains have also played an important role in serving the Indian consumer. The Andhra Pradesh government developed the DWCRA bazaars where DWCRA are self help groups for women. Local governments are also using Information Technology in delivering services. For example, e-SEVA is a government of Andhra Pradesh initiative to create an integrated bill payment and retail services stop. The Karnataka government has centres called Bangalore one which offer sale of passport applications, various registrations related to government services, and the payment services.

Until now we have seen the different stages of retail development and the various retail institutions. The retail format development took place because of several reasons which have been integrated into three theories of retail development. The three theories of retail development are Environmental, Cyclical and Conflictual.

Retailing evolved from the shanties and melas to the mom and pop stores, and the next phase of evolution saw the growth of franchise stores. The franchise stores boom happened through the 70s and 80s along with India's textile revolution. Most of the franchise formats were enabled by textile brands such as Reliance's, Vimal, Bombay Dyeing, etc. After this phase India's retailing developed in the high streets of major metros. For instance, retailing outlets were frequently visited on Brigade Road, Bangalore, Commercial Street, Bangalore, Usman Road and Pondy Bazaar in Chennai, Connaught Place and South Extension in New Delhi, Lake Market and Gariahat Market or Park Street in Kolkata. In the 90s Indian retailing witnessed its growth in department stores with the entry of Shoppers' Stop in Mumbai and Bangalore, closely followed by Pantaloons in Kolkata. After this many apparel stores such as Westside of Tata, Lifestyle from the Dubai-based Landmark group opened in India. The late 90s introduced India to suprmarkets such as Foodworld which started first in Chennai.

A transformation in traditional categories like jewellery with the opening of many jewellery brand stores in India, like Tanishq, Kitilals, Oysterbay, etc. has fuelled the growth of modern retailing. Multinationals in brand retailing are now entering through the franchise route while many hypermarkets like Big Bazaar have opened. Malls are opening at a very fast pace in India and currently there are almost 220 operational malls in India.

Check Your Progress

6. What are the other names for a travelling salesman?
7. What are the objectives of KVIC?
8. What is the connection between the caste system and the retailer?
9. What are e-SEVA and Bangalore one centers?
10. What are the products that are retailed by KVIC and PDS?

1.5 SUMMARY

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The retailing industry is a recent phenomenon offering opportunities for growth. In retailing, products and services are sold to consumers for their personal or family use. The retailer is the businessman at the end of the chain that links manufacturers to consumers. While a retailer might himself also be a manufacturer or wholesaler, by and large retailers concentrate on satisfying the needs of the ultimate consumer. The role of retailing begins where that of a manufacturer or distribution ends. Retailing starts immediately where the role of a manufacturer or distributor ends. It ends with the customer not only by selling but also with after sales service. The evolution of retail is synonymous with the evolution of trade. It started with the barter exchange but the end of evolution is yet to be seen, as day-by-day new retail formats are emerging in the industry.

1.6 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The word 'Retailing' is derived from an old French word 'retaillier', which means 'to cut into small pieces'.
2. Retailing is a massive industry that pervades all our lives. Virtually all of us shop, sometimes for pleasure and sometimes because we have to. But when and how did it all begin? The answer is probably to do with surpluses. As man got better at cultivating his land, he found that even after feeding his family and animals and putting food into storage, there was some left over. Rather than waste this surplus, he traded it with others for their surplus or perhaps tools or other objects.
3. First departmental stores – Bone march store (1838).
4. Contemporary retail chains that dominate India are Public Distribution System (PDS), Post Offices, and Khadi & Village Industries (KVIC) stores, which are organised by the government.
5. Public Distribution System, Khadi & Village Industries, Fair Price Shops.
6. Peddlers.
7. The objectives of KVIC include
   (*i*) The social objective of providing employment
   (*ii*) The economic objective of producing saleable articles
   (*iii*) The wider objective of creating self-reliance amongst the poor and building a strong rural community spirit.
8. The caste system can be taken as the earliest record regarding retailers. The people who were involved in trade were categorised into the vysya caste system.
9. e-SEVA is a government of Andhra Pradesh initiative to create an integrated bill payment and retail services stop. The Karnataka government has centres called Bangalore one which offer sale of passport applications, various registrations related to government services, and the payment services.
10. The product categories of KVIC include khadi (which is cloth woven by hand using handspun yarn only. Natural fibers namely cotton, wool and silk are used in spinning and the production activity is carried out in rural areas), honey, fibre products, processed foods and vegetable products, hand made paper products, leather products, pottery, village oil, *agarbatti* (incense sticks), soap, palmgur and palm products, cottage matches, processed cereals and pulses. PDS ensures availability of essential commodities like wheat, rice, sugar, edible oils and kerosene to the consumers

1.7 EXERCISES AND QUESTIONS

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1. Discuss the meaning and importance of retailing.
2. Differentiate the terms retail, retailer and retailing.
3. Describe the evolution of retail industry.

Exercises

1. Think of your favourite stores. What do they do that encourages your loyalty? What do you like about the in-store experiences?
2. Think of the worst store that you have visited. What are the factors, which made you feel bad about it.
3. How can they be changed for better customer shopping experiences?
4. Write the names of the top retailers that you know and who you would like to work for. Go to their website and rank the retailers in order of their attractiveness as potential employers. Write the various factors that you considered while ranking them.
5. Visit online e-retailing sites such as www.ebay.com and www.amazon.com. Find out which sites are shopper-friendly and areas where others are lacking.

1.8 FURTHER READING

1. Berman and Evans, *Retail Management*; Prentice Hall, 2004.
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4. Dunne, Lusch and Gable, *Retailing*; South-Wester, 2002.
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UNIT 2 RETAILER IN THE DISTRIBUTION CHANNEL

Structure

2.0 INTRODUCTION

Retailing is all about the distribution of goods and services. Retailers play a key role in the life of a product as it makes its journey from the domain of the manufacturer, grower or service provider to the person who finally consumes it. Retailing is such an intrinsic part of our everyday lives that we often take it for granted. Customers are not even aware of the sophisticated business decisions that retail managers make and the technologies that they use to provide goods and services.

2.1 UNIT OBJECTIVES

- Understanding a distributional channel
- Understanding the types and levels of a distribution channel
- Discussing VMS
- Differentiating between a traditional channel and a VMS
- Appreciating the role of a retailer in the distribution channel

2.2 DISTRIBUTION CHANNEL

Distribution channel refers to a set of interdependent organizations that are involved in the process of making a product or service available for use or consumption. They are the pathways that a product or service follows after production, to reach the consumer for purchase and use.

Each interdependent organization in the distribution channel is called an intermediary, because each of the interdependent organizations will help to connect producer with consumer. Distribution channel is also referred to as the marketing channel. Today, we use the concept of value chains and value networks to represent the same but in a broader perspective.

All organizations and individuals in a distribution channel can be divided into merchants and agents. Merchants are those who buy, take title to and resell merchandise. Wholesalers and retailers are the two types of merchants in a distribution channel. Agents, on the other hand, are those who search for customers and negotiate on behalf of producers to buy the products. Brokers and agents (forwarding, manufacturer's agent and sales agent) are examples of agents. Agent as an intermediary does not take the title to goods. Agents represent buyers and sellers on a permanent basis, whereas brokers represent buyers and sellers on a temporary basis.

A distribution channel cannot survive without the supporting members called facilitators. Banks support the distribution channel by lending funds. Advertising agencies help the distributor by promoting his product through various advertisements thus fostering sales. Independent warehouses provide the storage space and place for the products. A transportation company assists the distribution channel by delivering the product to the required places. Facilitators are the backbone of a distribution channel.

Today, members of the distribution channel collectively earn on an average, a margin of 50 per cent of the selling price. Not only have the percentage of margins increased but so have the expectations from distribution channels . Earlier a distribution channel was expected to serve the markets by delivering the goods or services but today they not only serve the markets but also help in creating markets.

Based on the customer, we can divide distribution channel into two types:

1. Consumer marketing channels
2. Industrial marketing channels

Though two marketing channels are consumer marketing channels, we cannot say that both are same, because of the number of levels. Based on the number of levels in each channel, we can further divide the consumer and industrial marketing channel into zero level, one level, two level and three level channels.

A zero-level channel, also called a direct marketing channel, consists of a manufacturer who sells directly to the final customer. Mail order retailing, telemarketing, TV selling, Internet selling, and door-to-door selling are typical examples of a zero-level channel. In a zero-level channel, the manufacturer himself is the retailer viz, the manufacturer performs all the functions of a retailer. Zero-level distribution channel is illustrated in Figure 2.1

0 level: Manufacturer → Consumer

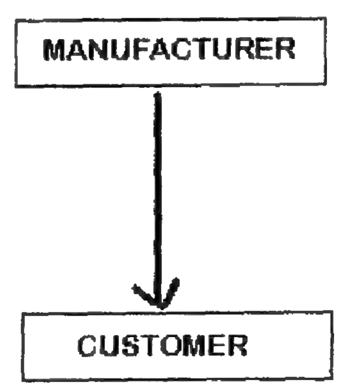

Figure 2.1: Zero-level Distribution Channel

A one-level channel consists of a single intermediary in the selling process, such as a retailer. Figure 2.2 illustrates the one-level distribution channel.

1 level: Manufacturer → Retailer/Wholesaler → Consumer

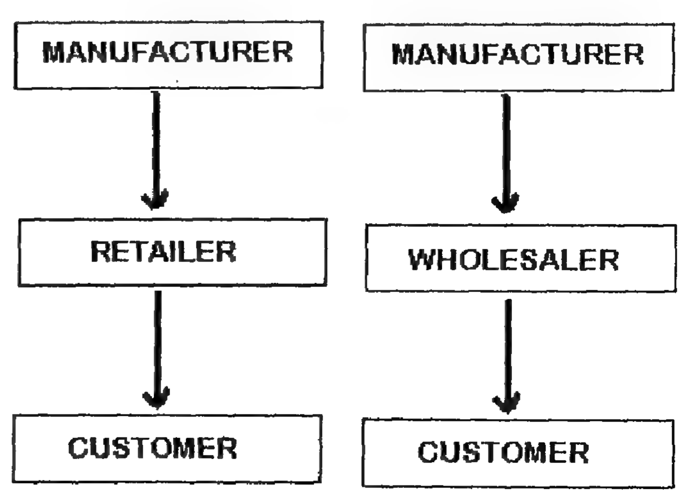

Figure 2.2: One-level Distribution Channel

A two-level channel consists of two selling intermediaries, *i.e.*, a wholesaler and a retailer. A two-level distribution channel is shown in Figure 2.3.

2 level: Manufacturer → wholesaler a Retailer → Consumer

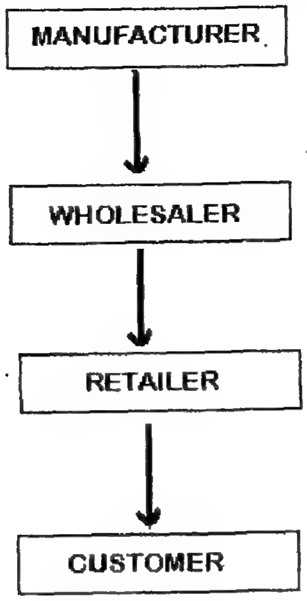

***Figure 2.3 :** A Two-Level Distribution Channel*

A three-level channel consists of three intermediaries, *i.e.*, carry forward agent, wholesaler and retailer as shown in Figure 2.4

3 level: Manufacturer → Carry forward agent → wholesaler → Retailer → consumer

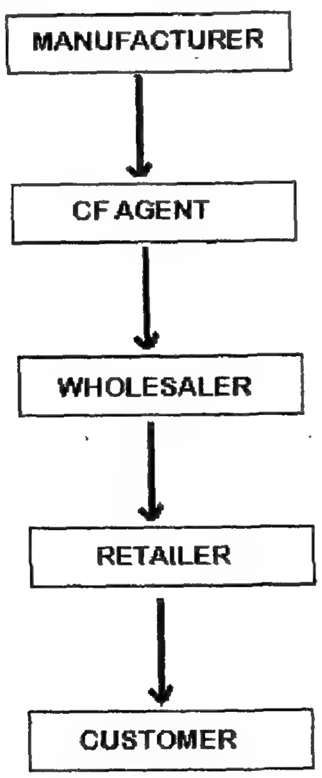

***Figure 2.4 :** Three-Level Distribution Channel*

Though the above figures show only one wholesaler, and one retailer, it does not mean that there will be only one wholesaler and one retailer in a distribution channel. The number of distributors depends on the strategy adopted by the company. Broadly, there are three options to choose from:

1. *Exclusive distribution* involves appointing few distributors. The distributor deals only with the manufacturer with whom he has signed an agreement and not with any other competing manufacturer. Most of the two-wheeler distributors can be considered as exclusive distributors.
2. *Selective distribution* involves appointing a few but not all the distributors who are willing to deal with the product. Financial products like mutual funds are an example.

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Check Your Progress

1. Define intermediary.
2. Differentiate between a merchant, agent and a broker.
3. Who are the three intermediaries in a 3-level channel?
4. What is the full form of VMS?

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3. *Intensive distribution* involves the manufacturer placing his goods or services in as many outlets as possible. Chocolates, bubble gum, snacks are typical examples for intensive distribution.

The above mentioned classifications are a standard but there can be variations across industries and countries. For example, Jobbers can be a link between wholesaler and a retailer in meat packing industries.

A distribution channel is described as a path through which product, service, information, title to the product and money flow from the manufacturer to the ultimate consumer. There can be situations of a reverse flow. A reverse flow is defined as the flow from consumer back to the manufacturer. For example, the cold drink bottles are reused by the manufacturer. The customer pays for it but claims the money once he returns the bottle.

Today, a manufacturer faces most of the conflicts with the distributor, due to the non-compliance of terms and conditions. The major areas are price policy, payment conditions, territorial rights, the extent of control, and the areas of control. To avoid the conflicts, better integration of the distribution channels is recommended.

2.3 CHANNEL INTEGRATION AND SYSTEMS

In a conventional marketing channel, there is an independent producer, wholesaler and retailer. The goal of each of these businesses is to make maximum profit, and no channel member has absolute control over the others.

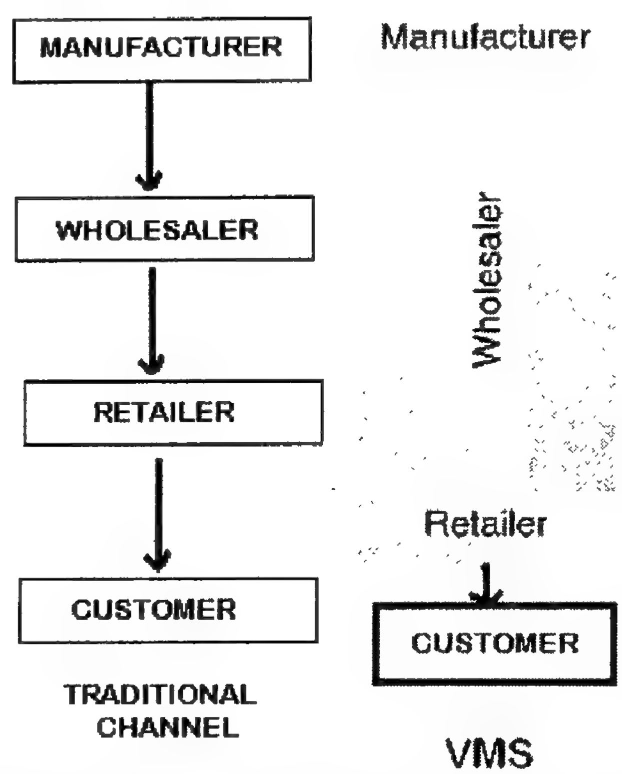

Figure 2.5: Difference between Traditional Channel and Vertical Marketing System

Vertical Marketing System

On the other hand, in a vertical marketing system (VMS), the producer, wholesaler and retailer act as one whole. Figure 2.5 depicts the difference between these two marketing systems. In the VMS, the three components are professionally managed and coordinated centrally in order to have optimum operating economies and create greatest impact on the market. The chief power lies with the channel captain, who owns or franchises the others; everyone cooperates with him. Any one of the three-producer, wholesaler or retailer, can be the channel captain. Vertical Marketing System was formed when some channel members attempted to control channel behaviour and eliminate the conflict that results when

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independent members pursue their own objectives. There are three types of VMS as given below.

1. **Corporate VMS**: Any VMS, where the control comes due to the ownership can be defined as corporate VMS. Two examples of Corporate VMS are if a manufacturer sets up his own retail showrooms or a wholesaler has significant ownership in manufacturing or retailing.
2. **Administered VMS**: Any VMS, where coordination and cooperation is due to the size and power of one of the members is termed as administered VMS. For example, the manufacturer of a popular brand product has a command over the retailer in terms of margin, shelf space, promotions, etc.
3. **Contractual VMS**: When independent firms at different levels of production and distribution integrate their programmes on a contractual basis to obtain more economies or sales impact than they could achieve alone, it is termed as contractual VMS. These can be further divided into three types:

   (*a*) *Wholesaler sponsored voluntary chains* – In order to come on a par with large chain organizations, wholesaler organize chains with retailers on a voluntary basis. They also develop programmes wherein independent retailers can standardise their selling practices as well as achieve buying economies.

   (*b*) *Retailer cooperatives* – These are the result of retailers' enterprise to further wholesaling and production. Members of such cooperatives buy and advertise together and share profit on purchases on a proportional basis.

   (*c*) *Franchise organizations* – In the process of production to distribution, different stages are linked by a channel member called 'franchisor'.

Horizontal Marketing Systems

In a horizontal marketing system, two or more unrelated companies put together their resources or programmes to exploit an emerging marketing opportunity. Many retailers have arrangements with local banks to offer in-store banking.

Multi-channel Marketing Systems

In days gone by, selling by companies was to a single market through a single channel. The current trend is towards Multi-Channel marketing, thanks to the burgeoning customer segments and channel options. In multi-channel marketing, a single firm makes use of two more marketing channels in order to reach one or more customer segments. The benefits of multi-channel marketing system are:

(*i*) increased market coverage

(*ii*) lower channel costs

(*iii*) more customized selling

2.4 ROLE OF A RETAILER IN A DISTRIBUTION CHANNEL

The role of a retailer in a distribution channel becomes obvious with the understanding about the distribution channel. It must be remembered that a retailer does not always mean an independent retailer. A retailer can be an individual or an organization that perform retailing functions, not necessarily exclusively. The general objective of any retailer is to provide the right product, at the right time, at the right place and at the right price. Here right is a

Check Your Progress

5. Define the three types of VMS.
6. What is HMS?
7. What is the general objective of a retailer?
8. What is e-tailing?

relative term and means complying with the customer needs in terms of product, place, price and time. The success of retailer is akin to that of a marketing manager in that it solely depends on understanding customers and meeting their expectations to the maximum extent possible. Meeting customer expectations is a survival strategy; in order become a leader, one should exceed the expectations through innovation.

The retailer acts as a link between the producer and the consumer. He is a liaison between a manufacturer/ wholesaler and ultimate customer. Though the term customer and consumer can be used interchangeably, they have their own identity. The term customer represents a person who purchases the product and the term consumer represents the person who consumes the product. They might represent the same individual or two entirely different individuals. For example, when a father purchases books for his child, the customer is the father and the consumer is the child. In case of a client, who visits a lawyer for his case, he can be called as both customer and consumer, but conventionally he is referred to as a client. The retailer is a link in case of one or more level distribution channel. In the case of a zero-level distribution channel, there are no links. Thus, the role of a retailer as a liaison does not exist in the case of zero-level channels like direct mail, door-to-door sales, etc. One of the modern forms of zero-level channels is e-tailing.

Retailing vs E-tailing

E-tailing, also called web tailing represents the retailing that is done through Internet. Today, companies do their business through Internet, because of inherent benefits like cost, convenience and information empowerment that Internet offers. E-tailing is a very good concept on the drawing board, but practical implementation and success is difficult. Today security levels have increased and most of the banks in India have their own retail internet banking operations. Today the world's largest and most successful e-tailing companies are Amazon and e-bay.

2.5 SUMMARY

Retailing is such a part of our everyday lives that it is often taken for granted. In this unit, the dominant role that the retailer plays in the distribution of products to consumers has been explored. The modern retail industry provides many challenges for retail professionals. A retail professional must understand the concept of vertical marketing systems, and know the areas where a VMS has an edge over the traditional channel. E-tailing is retailing through web and is also known as e-commerce.

2.6 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Each interdependent organization in the distribution channel is called an intermediary, because each of the interdependent organizations will help to connect producer with consumer.
2. Merchants are those who buy, take title to and resell merchandise. Wholesalers and retailers are the two types of merchants in a distribution channel. Agents, on the other hand, are those who search for customers and negotiate on behalf of producers to buy the products.
3. A three-level channel consists of three intermediaries, *i.e.,* carry forward agent, wholesaler and retailer.
4. Vertical Marketing System.
5. Corporate VMS, Administered VMS and Contractual VMS.
6. Horizontal marketing system.

7. The general objective of any retailer is to provide the right product, at the right time, at the right place and at the right price.
8. E-tailing, also called web tailing represents the retailing that is done through Internet.

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2.7 EXERCISES AND QUESTIONS

1. Define distribution channel and describe the types and levels of distribution channels?
2. What do you understand by the term 'integration of distribution channel'?
3. Explain the role of a retailer, as a marketing intermediary, in a distribution channel.

2.8 FURTHER READING

1. Berman and Evans, *Retail Management*; Prentice Hall, 2004.
2. Varley Rosemary and Mohammed Rafiq, *Principles of Retail Management*; Palgrave MacMillan, 2005.
3. Levy and Weitz, *Retailing Management*; Irwin, 2004.
4. Dunne, Lusch and Gable, *Retailing*; South-Wester, 2002.
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UNIT 3 RETAILER — FUNCTIONS AND BENEFITS

NOTES

Structure

3.0 INTRODUCTION

Business exists in a society, takes inputs from society and gives output back to society. The inputs are capital, labour, land, knowledge, etc., and the outputs are goods or services. The value delivered to the society, determines the worth of the business to the society. The higher the value delivered the more support the business gets from the society. The same principle applies for a retail business also. Retail business will exist if it will deliver considerable value to the society. For example, today the retail businesses of alcohol and tobacco products are under pressure. The Government of India has restricted the promotion of these two products, by banning their advertisements. Not just the retail of the two products but also their manufacturing is under pressure. For example, the manufacturing of alcohol came to a standstill when the sale and consumption of alcohol was banned by the Government of Andhra Pradesh.

In this Unit, we will examine the multitude of benefits extended by a retailer to different sections of society.

3.1 UNIT OBJECTIVES

- Appreciating the retailers contribution to customer, manufacturer and society
- Understanding the retailer's activities by studying his functions
- Identifying the various career opportunities provided by retailing

3.2 FUNCTIONS OF RETAILER

The term "function" refers to the business activities that a retailer does.

"You can eliminate the middle men, but you can't eliminate their functions." This is a popular adage in marketing which clearly explains the indispensability of the functions of a retailer. The primary functions of a retailer are:

1. **Providing variety and assortments:** A typical supermarket provides thousands of products. It not only stocks brand varieties but also assortments within a particular brand. For example, let us take a single product, a shampoo, for analysis. The retailer provides Clinic Plus, Head and Shoulders, Pantene, Garnier, Sunsilk, Chik, Rejoice, Johnson & Johnson, Meera, Ayur, Himalaya, and Boutique. Within each brand various sub-brands are provided like, Clinic Plus Protein shampoo, Clinic Plus Ayurvedic shampoo, and Clinic All Clear. Within each sub-brand, he

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provides various assortments like 300 ml, 200 ml, 100 ml, 25 ml bottles, and 8 ml and 4ml sachets. The above information pertains to one product and a retailer provides hundreds of such products.

2. **Breaking bulk:** Though the retailer purchases the products in bulk, in order to reduce transportation inventory and warehousing costs, he does not sell it in bulk to the end customer. He sells the products in small units. This primary function of retailer, to transform the bulk assortment of products made by producers into small assortments desired by consumers is known as breaking bulk.
3. **Holding inventories:** The broken bulk is kept in stock until the customer comes for the purchase.
4. **Providing information:** A retailer provides information regarding the products, services and promotions to the customer. Similarly, he gives information regarding the customers, purchase patterns and demand pulse to the manufacturer.
5. **Implied functions:** Merchandising, quality control, storage and logistics management are known as the implied functions of retail management.
   (*a*) *Merchandising:* It involves identifying the right products for retail, sourcing them and ensuring that they reach the end consumer.
   (*b*) *Quality control:* Quality control is an integral part of merchandising; It involves establishing the standards for merchandise procurement and ensuring that the customer gets the quality product at the expected standard.
   (*c*) *Storage and Maintenance:* The procured products can be classified into two types– perishable and non-perishable goods. Perishable goods like vegetables require cold storage, in order to maintain the freshness and to prolong their life. Non-perishable goods require maintenance like cleaning.
   (*d*) *Logistics:* In a narrow sense logistics means transportation. Proper logistics management includes proper planning, follow up and contingency planning.
6. **Other services:** Apart from the above major and common services, a retailer offers the following services:
   (*a*) Offering credit to consumers
   (*b*) Displaying products
   (*c*) Giving demonstrations for the product
   (*d*) Providing samples for testing and tasting
   (*e*) Handling enquiries, complaints, guarantees, warranties
   (*f*) Providing home delivery, installation, gift wrapping
   (*g*) Advertising and promotion

3.3 BENEFITS OF A RETAILER

Retailer benefits are multi folded and should be studied from different perspectives. The benefits of a retailer can be broadly categorized into one, benefits to the customer, two, to the producer and three, to the society through socio-economic dimensions. One has to understand that the functions and benefits are inseparable and overlapping.

3.3.1 Benefits to the Customer

1. **Utility: (*Form, Time, Place and Possession*):** From an economic standpoint, the role of a retailer is to provide real added value or utility to the customer. This comes from four different perspectives:

First is utility regarding the form of a product that is acceptable to the customer. The retailer does not supply raw materials, but rather offers finished goods and services in a form that the customer wants. The retailer performs the function of storing the goods, and providing us with an assortment of products in various categories. He creates time utility by keeping the store open when the consumers prefer to shop. By being available at a convenient location, he creates place utility. Finally, when the product is sold, ownership utility is created.

All these are real benefits, which retailers offer by getting close to potential customers. It is necessary, therefore, for retailers to fully understand the motivations that drive their customers. There retailer serves the consumer by functioning as a marketing intermediary and creating time, place and ownership utility for the consumer.

2. **Benefit from breaking bulk:** A customer cannot purchase in bulk because of two reasons. One is that he many not have the budget for the purchase and the second is that he does not want his money to be locked in bulk purchase thus reducing his purchasing power.
3. **Benefit from varieties and assortment:** Customer wants a broad assortment (products produced by many manufacturers) of products made available conveniently (within easy reach). Without a retailer, the consumer would have to buy straight from the companies, making purchases very strenuous and with limited choice.
4. **Benefits from information:** Shoppers learn about the availability and characteristics of goods and services, store hours, sales, and so on from retailer's ads, salespeople, and displays. Thus, a retailer empowers a customer in his decision-making and action planning.
5. **Benefit of credit:** A retailer provides credit to the customers, thus enabling them to use the product or service, without having to pay the entire amount at the time of purchase.
6. **Home delivery:** A consumer can save his time and energy by ordering the products and getting them delivered to his doorstep.
7. **Installation and after sales service:** Using a product could not have got easier without the installation and after sa[illegible] provided by the retailer.
8. **Sample, trail, and testing:** The customer is always at risk of purchasing a bad or an unwanted product. This risk is avoi[illegible] samples, trial and testing. Companies either provide a free sample at a retail outlet or prov[illegible] the product in small quantities for sale. Most softwares have a trial period of 30 days, cloth stores have trial rooms, music stores have juke boxes and so on. Today most of the automobile retailers provide a test drive opportunity to their potential customers. Without all of the above it would have been a loss for a customer in case of an unwanted or bad product purchase.

In summary, we can say that in the absence of a retailer, the customer would have had to take the risk of directly dealing with the companies, which provide a narrow product choice and a bulky package sale.

3.3.2 Benefits to the Wholesaler/Manufacturer

1. **Reducing transaction complexity:** This concept can be better understood with an example. Let us take five companies and ten customers. If each and every customer makes at least one transaction per month with each of the companies, then he would have made five transactions per month and a total of ten customers will amount to a total number of 50 transactions. Each company has to deal with a minimum of 10 transactions per month. In reality the number of customers will run into millions of customers. Thus a company has to put aside its production and dedicate all its efforts

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Check Your Progress

1. What responsibilities does a retail business have towards society?
2. List the various retail products that harm the society?
3. Should the government intervene into the matters of retail? Why?
4. What is the benefit of holding an inventory?
5. Explain the different types of utilities?

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in completing these million transactions effectively. In case of a credit transaction, a single transaction runs throughout the year. In case of a retailer, all the five companies make five transactions with the retailer and the ten customers make ten transactions with the company. Thus, the total number of transactions is fifteen only which is far better than the fifty transactions. From the point of a producer, without a retailer, he has to deal with ten customers, thus making ten transactions. On the other hand, if a retailer is there, each company has to make one transaction only.

2. **Improves production efficiency:** The transaction/exchange with a customer is exclusively taken care of by the retailer, thus reducing the burden on the part of the producer. Thus a producer can take care of production exclusively; increasing the production efficiency, through his specialization in production. If a producer cannot specialize in production, then he cannot achieve the economies of scale, thus increasing the cost to the customer.
3. **Economy and efficiency in exchanging:** A producer will use a retailer when he believes that the retailer can perform the function more economically and efficiently than he can. A retailer is specialized in customer transaction management, thus creating better exchanges with the customer, in terms of economy and quality.
4. **Match supply and demand:** Forecasting a demand for his goods, a manufacturer will produce the goods and supply to the retailer. A customer comes to a retailer with a demand for the required goods or services. A retailer understands the need of the customer and provides him with the required products or services, thus matching the demand with the supply.
5. **Support to small suppliers:** For small suppliers, retailers can provide assistance by transporting, storing, advertising and pre-paying for products.
6. **Feedback:** Retailers communicate both with manufacturers and wholesalers. Manufacturers and wholesalers are informed by their retailers with regard to sales forecasts, delivery delays, customer complaints, defective items, inventory turnover and more. Many goods and services have been modified due to retailer's feedback. This allows the manufacturer to reach more customers, reduce costs, improve cash flows, increase sales more rapidly, and focus on his area of expertise.

3.3.3 Benefits to the Society

From a broader perspective, retailing benefits the society in terms of social and economic viewpoints. From the social perspective, it helps in maintaining and improving the standard of living and gaining social status through career opportunities. Retailers also provide an arena for us to carry out our social activities. We may go out shopping with a group of friends which would make it a social activity.

1. **Improving the standard of living:** Standard of living refers to the quality and quantity of goods and services available to the people and the way these services and goods are distributed within a population. The above definition clearly states that the availability and distribution of goods and services determine the standard of living. For example, one of the measures to test the standard of living can be number of refrigerators per 1000 people. This is made possible only by a retailer. Today's retailing is more dynamic than it was earlier. People can now get imported deodorants, soaps, clothing, etc in any modern retail outlet, which was not possible earlier with a traditional neighbourhood retail outlet. The people depend on retailing even for their daily food and grocery items.
2. **Careers in retailing:** A career in retailing is viewed with respect by the society. It adds to the social status of a person. What follows is a description of various jobs in a retail career.

Retail Manager

Retail management involves understanding and interacting directly with the customer in a store so as to be able to provide him/her the product closest to what he/she wants. A retail manager, therefore, plans and coordinates the operations of retail outlets, be it small franchises like specialty shops, fast food chains, or sections of supermarkets or department stores. This involves determining the layout of merchandise so that it is presented as attractively as possible, monitoring the stock levels, placing orders and managing the supply chains and keeping and analysing records of sales figures and financial transactions. A retail manager is also expected to maintain a high level of customer service by observing customer preferences and ensuring that complaints are quickly resolved. Though the terms retail manager and store manager are used interchangeably, a store manager's job entails a narrow responsibility when compared to that of a retail manager.

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Sourcing and Merchandising Professionals

The key responsibility of a merchandiser is to procure merchandise by sourcing it from vendors or manufacturers. Key tasks in this career include the selection of vendors, costing of merchandise procured, allocation of merchandise to the stores and calculating the gross margins. It involves extensive travelling to locate vendors and exclusive merchandise for the retail stores. The various designations under this career are: Category heads, category buyers, buyers and assistant buyers, merchandising heads, merchandising managers and assistant merchandising managers.

Business Development – Marketing

In retail, marketing functions may be centralized and may include different departments like advertising, sales promotion and public relations. Typically this group also undertakes periodic market researches and customer analyses.

Business Development – Realty

The difference between sourcing and merchandising can be understood now. A sourcing professional can either source goods or real estate. If a professional is sourcing real estate, then he is said to be into business development. In the case of professional, sourcing goods, he is called a merchandiser. The responsibility of sourcing real estate requires identifying and negotiating real estate.

Store Operations

This is a broader term used to represent the collective responsibilities of sales associates, cashiers, store stock associates and stock receivers. The primary duty of a sales staff is to serve customers on the selling floor, actually selling goods. However they might also be involved in receiving merchandise into the store, counting it and then displaying it on the store shelf. A cashier would work behind the cash register desk and would be responsible for billing of the merchandise purchased by the customer and the collection of the required amount of money.

Inspection and Quality Control

Inspection and quality control can exist as a separate responsibility or as an integrated one. The responsibility includes setting standards for quality and inspecting the incoming stock for quality and coordinating with the functions of sales returns, repairs, and warranties.

Check Your Progress

6. What are the various services rendered by the retailer to the customer?
7. Explain the concept of reduction in transaction complexity.
8. Explain the role of merchandise sourcing, inspection and quality control in retailing.
9. Does retailing require technical people? Explain.

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Finance

The responsibilities are no different from those of other sectors. The job involves accounting functions like compiling and maintaining financial records, paying for expenses, banking and managing credit.

Human Resources

The responsibilities include recruiting and hiring employees, identifying training needs at various levels within the organization and then designing and implementing training programmes. Apart from the above, it also includes employee compensation and benefit planning, designing career paths, creating and implementing performance appraisals and so on.

Supply Chain Management and Logistics

Though the responsibility broadly overlaps with the responsibilities of a merchandiser, it has its own niche of responsibilities. The broad responsibilities include integrated management of materials and information through the suppliers, operations and customers. It typically involves transportation, warehouse and inventory planning and control.

Store Designers and Planners/Visual Merchandising

The job involves planning and designing the store. Most of the work involves interior designing. Architects and interior designers with experience in retailing are recruited for these positions. Visual merchandising is closely associated with store designing but visual merchandising is more about the display of merchandise.

Technical and E-Commerce

The responsibilities include planning, implementation and maintenance of various technologies like RFID, E-Commerce websites, ERP, MIS and a plethora of other technologies.

Apart from the above societal benefits, retailing also provides economic benefits such as employment and economic development. These topics are discussed in detail in Unit 5.

3.4 SUMMARY

An important institution in our society, retailing provides considerable value to consumers while giving people opportunities for rewarding and challenging careers. Retailing offers numerous employment opportunities including managers, accountants, merchandisers and buyers. The world of retailing entails much hard work, but it also offers many rewards.

3.5 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Retailing benefits the society in terms of social and economic viewpoints. From the social perspective, it helps in maintaining and improving the standard of living and gaining social status through career opportunities. Retailers also provide an arena for us to carry out our social activities.
2. The retail businesses of alcohol and tobacco harm society.
3. The Government of India has restricted the promotion of alcohol and tobacco, by banning their advertisements because they are bad for health.
4. The broken bulk is kept in stock until the customer comes for the purchase.

5. From an economic standpoint, the role of a retailer is to provide real added value or utility to the customer.
6. Utility, benefit from breaking bulk, benefit from varieties and assortment, benefits from information, benefit of credit, home delivery, installation and after sales service, and sample, trail, and testing.
7. This concept can be better understood with an example. Let us take five companies and ten customers. If each and every customer makes at least one transaction per month with each of the companies, then he would have made five transactions per month and a total of ten customers will amount to a total number of 50 transactions. Each company has to deal with a minimum of 10 transactions per month. In reality the number of customers will run into millions of customers. Thus a company has to put aside its production and dedicate all its efforts in completing these million transactions effectively. In case of a credit transaction, a single transaction runs throughout the year. In case of a retailer, all the five companies make five transactions with the retailer and the ten customers make ten transactions with the company. Thus, the total number of transactions is fifteen only which is far better than the fifty transactions. From the point of a producer, without a retailer, he has to deal with ten customers, thus making ten transactions. On the other hand, if a retailer is there, each company has to make one transaction only.
8. The key responsibility of a merchandiser is to procure merchandise by sourcing it from vendors or manufacturers. Inspection and quality control can exist as a separate responsibility or as an integrated one. The responsibility includes setting standards for quality and inspecting the incoming stock for quality and coordinating with the functions of sales returns, repairs, and warranties.
9. Retail management involves understanding and interacting directly with the customer in a store so as to be able to provide him/her the product closest to what he/she wants.

3.6 EXERCISES AND QUESTIONS

1. Retailing is not just an economic activity, but also one of significant social meaning. Discuss.
2. "One can dispense with a retailer but the retail functions cannot be eliminated or cannot be dispensed with." Explain.
3. What are the various career opportunities for retail professional?
4. Does a retail business depend on society? Explain the relation between the business and society.

3.7 FURTHER READING

1. Berman and Evans, *Retail Management*; Prentice Hall, 2004.
2. Varley Rosemary and Mohammed Rafiq, *Principles of Retail Management*; Palgrave MacMillan, 2005.
3. Levy and Weitz, *Retailing Management*; Irwin, 2004.
4. Dunne, Lusch and Gable, *Retailing*; South-Wester, 2002.
5. Davis and Ward, *Managing Retail Consumption*; John Wiley & Sons, 2002.

UNIT 4 RETAIL SCENARIO — CURRENT AND FUTURE

NOTES

Structure

4.0 INTRODUCTION

Organized retailing in India has the potential of creating over 2 million new (direct) jobs within the next six years, assuming an 8 to 10 per cent share of organized retailing in the total retail business. The growth of organized retailing in India will mean new jobs, higher incomes, and a better and healthier economy. Why is there such hype about retail?, Is this hype for real? Can the retail sector deliver to the expectations? Questions like these and many more can be answered once the ground realities about the retail scenario are understood. This unit aims at providing an outlook on global and Indian retail scenario, thus helping you in demarcating the hypes from realities.

4.1 UNIT OBJECTIVES

- Understanding the global retail scenario
- Understanding the Indian perspectives on retailing
- Identifying the prospects and key drivers of retailing in India
- Understanding the limitations and challenges faced by the Indian retailing industry

4.2 GLOBAL RETAIL SCENARIO

The global retail industry has travelled a long way from a small beginning to an industry where the world wide retail sales alone are valued at 10 trillion USD. The US retail sector is said to be world's largest with approximately 4.8 trillion USD sales annually. The United States not only tops the global retail industry but also the top retailer list. Wal-Mart, the world's largest retailer with annual sales of 315 billion USD, has its headquarters at Bentonville, Arkansas, USA. In fact, the top five retailers of the world are from US. The retail.industry accounts for over 8 per cent of GDP in western countries and is one of the largest employers. Table 4.1 illustrates the top ten retailers of the world according to the Fortune Global 500 ranking as on July 2006.

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Table 4.1: Fortune Global's top ten retailers of the world

Rank (FORTUNE RANK)	Retailer	Home country	Sales in Million USD
1 (2)	WAL-MART	USA	315654
2 (25)	CARREFOUR	FRANCE	94454
3 (43)	HOME DEPOT	USA	81511
4 (55)	METRO AG	GERMANY	72814
5 (59)	TESCO	ENGLAND	71128
6 (73)	KROGER	USA	60553
7 (83)	ROYAL AHOLD	NETHERLANDS	56427
8 (95)	COSTCO	USA	52935
9 (97)	TARGET CORP	USA	52620
10 (107)	SEARS HOLDINGS	USA	49124
TOTAL SALES OF TOP TEN RETAILERS IN THE WORLD			907220

The retail industry is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately-owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner-manned general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc.

Retailing in the developed world today is far more organized than in India. Up to 85 per cent of all retail sales in the United States is accounted for by the organized retail sector. The corresponding figure in Taiwan is 81 per cent, while it is 75 per cent for Western Europe, 55 per cent in Malaysia, 40 per cent in Thailand, Brazil and Argentina and 35 per cent in Philippines and Korea, 30 per cent in Indonesia, 20 per cent in China and a meager 3 per cent in India.

Indian organized retail is very small, in fact miniscule when compared to China's 20 per cent. This comparison is being made because organized retail development in both countries started almost at the same time. Though India has a paltry organized retail share, still it can rejoice because of the GRDI rankings.

The Global Development Retail Index (GRDI), published by a global strategic management consulting organization, A.I. Kearney, enables retailers to prioritise their global development strategies. Based on over 25 macroeconomic and retail-specific variables, the index ranks 30 emerging countries. Table 4.2 shows the ranking that counsel retailers now to plan and expand their business.

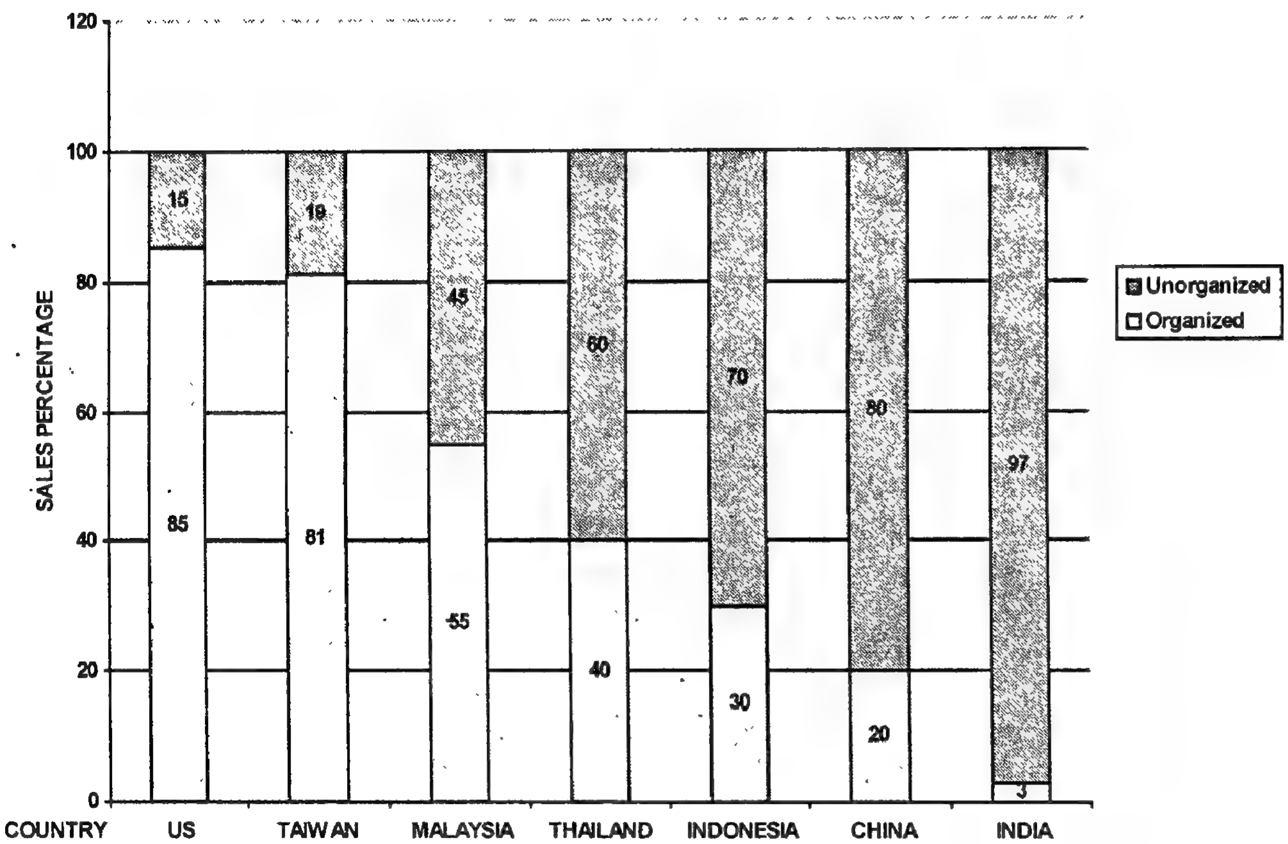
Table 4.2: Global Development Retail Index (GRDI)

GRDI Rank	Country	Region	GRDI Score
1	INDIA	ASIA	100
2	RUSSIA	EASTERN EUROPE	85
3	VIETNAM	ASIA	84
4	UKRAINE	EASTERN EUROPE	83
5	CHINA	ASIA	82
6	CHILE	AMERICA	71
7	LATVIA	EASTERN EUROPE	69
8	SLOVENIA	EASTERN EUROPE	68
9	CROATIA	EASTERN EUROPE	67
10	TURKEY	MEDITERRANEAN	66

From Table 4.2, it is evident that the Asian and East European regions are the best markets for retail development. These regions are opportune grounds on which retailers around the world can make a strong hold in the retail industry.

In several countries, organized retailing is also a source of earning foreign exhange. Highly-developed retail formats in countries like Singapore, Hong Kong, Malaysia, Dubai, etc. have made them important shopping destinations and bolstered tourism. For instance, for the last few years now Dubai has been organizing the much-talked about Dubai Shopping Festival. This festival has drawn 5 million tourists and generated USD 10 million in retail expenditure. On the same line every year, Singapore, Hong Kong and Malaysia are arranging festivals for shopping and tourism on a large scale.

Table 4.3: *A Comparative Penetration of Organized Retail*



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4.3 INDIAN RETAIL SCENARIO

India today is the second fastest growing economy. With an estimated rise of US$1,133 billion in GDP by 2010, from the current US$804 billion, India is set to emerge as the third largest economy – catapulting it into the company of the top 10 FDI destinations world-wide.

Predicted to grow to 8 per cent GDP in 2006, India continues to be a major attraction to global retailers. It is expected that the $350 billion retail market will grow by 13%, the top five retailers accounting for less than 2 per cent of the modern retail market. Population-wise, we are the second largest in the world anyway, boasting of one billion people! The government's announcement in early 2006 to allow foreign companies to own up to 51 per cent of a single-brand retail company to indicative of fundamental changes.

It is a testing time for the Indian retail industry. While it is proving to be amongst the most dynamic and upcoming with many players in the market, the heavy initial investments are a deterrent in the path of breaking even. However, the future is promising; the market is growing, government policies are becoming more favourable and emerging technologies are facilitating operations.

Check Your Progress

1. Which country's retail sector is the largest in the world?
2. Name the retailer which tops the Fortune 500 list of global companies?
3. To which country does the word's second largest retailer Carrifour belong?
4. What are the total sales of top 10 retailers in the world?
5. What are the two sectors into which the retail sector can be divided?

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At US$ 482 billion, private consumption currently accounts for nearly 60 per cent of the country's present GDP (US$ 804 billion). Out of which retail alone accounts for 62 per cent of consumer spending at US$ 300 billion, as against US$182 billion in non-retail sectors, accounting for 38 per cent of private consumption in India. Surprisingly, the urban-rural split in consumer spending stands at 9:11, with rural India accounting for 55 per cent of private retail consumption at US$ 165 billion. Urban India, on the other hand, accounts for US$ 135 billion of India's private consumption in the retail sector.

Currently estimated at US$ 300 billion, the Indian retail market is expected to grow by 112 per cent in ten years' time to touch US$ 637 billion. Contrary to popular belief, almost half of this growing retail market at present lies in rural India.

An economic giant in the making, we have plenty of hidden potential for the enterprising. Despite a population of 1.07 billion, the current target base for retailers is 405 million, of which 30 million have the collective capacity to purchase to the worth of US $230 billion. We have a 'rich' population of 6 million, which can zend up to US $28.36 billion annually.

The heart of India's economy, comprising the 6 cities of Mumbai, Delhi, Chennai, Kolkata, Bangalore and Hyderabad, contain 6 per cent of the population while contributing 14 per cent our GDP. The business financial and political hub of the country, the credit of making India noticeable in the eyes of the world goes to their IT, pharmaceutical and IT's industries. No wonder foreign investors are making a believe for these cities.

The retail sector is witnessing a huge revamping exercise as traditional markets make way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. Western-style malls have begun appearing in metros and second-rung cities alike introducing the Indian consumer to a shopping experience like never before.

Despite the tremendous we have made, our retail sector is still rather scattered. We have 13 million retail outlets across the length and breadth of the country, mostly run by small family businesses using only household labour. The small store (kirana) retailing requiring little investment in land, capital and labour, has been one of the simplest and most convenient ways of self-employment. No wonder that India's retail density of 60% is one of the highest in the world. China and Brazil's organized retail sectors both 10-15 years to grow from 5 per cent to 20 and 38 per cent respectively, and India is certainly showing signs of progress in this field.

Growth of Organized Retailing

The growth in the organized retail as per the *Economic Times Retail* knowledge series is given below.

Table 4.4: *Estimated Growth in Organized Retail*

	In ($ Million)		
	2002	2007	CAGR (per cent)
Large Segments	1924	5024	21
Other Segments	1315	2645	15
Non-Store Retailing	239	422	12
Total Organized Retail	3478	8091	18

Large segments mean segments like food, clothing, consumer durables, books and music. The above projections are indicative only. As a matter of fact, the projections for 2007 have already been achieved. The growth rate predicted five years back was a tad pessimistic from today's growth rate perspective. With the organized retail segment growing at the rate of 25 to 30 per cent per annum, revenues from the sector are expected to triple from the current US$ 7.7 billion to US$ 24 billion by 2010. Analysts believe the share of modern retail is likely to grow from its current 3 per cent to 15 to 20 per cent over the next decade. No wonder a heavyweight like the Reliance group is planning to do a Wal-Mart in India.

In India, organized retailing has the potential to grow into a Rs 500,000 crore industry in the next five years. And though it has a long way to go as far as organized retailing is concerned, it is growing at a steady rate of 11 to 12 per cent and accounts for around 10 per cent of the country's GDP.

Retail consolidation or organized retailing will aggregate demand at the retail end, by passing the intermediary system, investing in the supply chain to ensure zero wastage, ensure lower prices to the end customer and higher prices to the farmer or original producer.

Some of the main constraints to the growth of the retail sector are regulatory issues, supply chain issues, differential taxation system, labour legislation and lack of industry status.

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Key Drivers for Growth

There is a definite change in the demographic pattern of the Indian population. The working population. The working population comprising an average of 24 years is on the rise, urban areas see more and more nuclear families, the member of working women has gone up, and the services sector offers attractive opportunities. All these, without doubt, will be contributing factors to the growth of the organized retail sector in India. The key trends impacting the retail sector are urbanization, changing family structures and demographic changes. Now more than ever before, it has become important for the industry to track demographic and socio-economic changes taking place in the country. It is important to have a multi-channel, pan-India strategy.

Indians with an ability to spend over USD 30,000 a year (PPP terms) on conspicuous consumption represent 2.8 per cent of the entire population. But with a population base of 1.07 billion people, this number amounts to 30 million people, a market next only to USA, Japan and China. While consumer demand is driving retail growth, it is in turn being driven by the following factors:

Economic growth: This has meant greater disposable incomes for the booming Indian middle class, which currently comprises 22 per cent of the total population. This figure is expected to increase to 32 per cent by 2010. Disposable incomes are expected to rise at an average of 8.5 per cent per annum till 2015.

Demographics: Over half the population is less than 25 years of age, a pattern that is expected to increase.

Urbanization: It is expected that by 2020, the urban population of India will grow from 28 to 40 per cent of the total, and their in comes will also rise alongside.

Credit availability: In the previous three years, retail loans doubled to a figure of US $38.7 billion by 2005.

As a result of these positive trends, there is a shift in the preferences for lifestyle foods, with more and more people looking to organized retailing. Another impetus to organized retailing is the growing number of malls expected to rise from 158 in 2005 to 600 by 2010. It is also estimated that the Indian Government will spend US $150 billion in the coming years to develop an infrastructure of international standards.

Road Blocks to Growth

Although the opportunities for growth of Indian retail are many, the sector is facing a number of road blocks, some of which are:

- **Regulatory barriers:** Ours is a very regulated sector, on account of a ruling coalition government and competition from global retailer to smaller, domestic ones. This restricts the materialization of the full potential of Indian retail. Further, despite the Union commerce ministry's announcement of a draft proposal to allow FDI to exclusive brand retailer, the same has not been permitted.

Check Your Progress

6. What percentage of retail is organized in India?
7. Where does India stand in the GRDI ranking?
8. Name the places that are promoting retail and tourism through shopping festivals.
9. What are the large segments of retail?
10. What are the key drivers?

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- **Fragmented suppliers:** Barring the electronics, FMCTs, cosmetic and textile industries, not many suppliers have the necessary scale and range of products to supply to national retail chains. Another hindrance is the inadequate infrastructure in the way of roads, electricity, cold chains and ports. As a result, retailers end up using several vendors, which in turn raises costs and prices.
- **Lack of skilled human capital:** The entry of new players in retail has hiked the demand for skilled manpower, which is still in adequate. Moreover, most of the educated in India still prefer IT, BPO and financial services as career options in preference to retailing.
- **Differential taxation system:** While efforts are on by the government to implement a uniform value-added tax in all states, currently there are differential tax rates, which implies more costs and difficulties in setting up an effective distribution network. Also, sales tax laws are not strictly implemented, allowing smaller stores to evade and gain advantage over larger, organized ones.
- **Labour legislation:** Our labour laws pertaining to the member of hours worked and minimum wages to be paid are very strict. As a result, part-time employees are restricted in their operations and employment. Also, for a company to open new outlets, a large number of clearances is required. This increases the cost and time taken to for expansion in the country.
- **Lack of 'industry' status:** The retail sector does not have 'industry' status yet, making it difficult for retailers to raise finance from banks to fund their expansion plans.

4.4 PROSPECTS OF RETAILING IN INDIA

Of the 209 million households in India, 6 million come in the 'rich' category (those with annual incomes above US $4700), while 75 million are regarded as 'consuming' (those with annual incomes between US $1000 and 4700). Most of the 'rich' live in Delhi, Mumbai and Bangalore and incur are annual expenditure of US $18 billion. While these cities also form 62% the market for India's premium products, 85% of our retail market lies in our 8 largest cities. Another category is the 'super rich', comprising about 1 million households in India's top income bracket, with a growth rate of 20% per year. The pattern of buying behaviour of the super rich is similar to their international counter parts and they form a good target for expensive quality products, but they do not provide the main impetus to the organized retail sector. The chief target of this sector is the lower 80 per cent of the rich and upper segment of the salaried class. This segment of about 40 million households earns USD 4,000-10,000 per household and comprises salaried employees and self-employed professionals. This segment is expected to grow to 65 million households by 2010 and is currently the key driver behind explosive growth in passenger car sales.

In early 2006, the government announced that it would allow foreign companies to own up to 51 per cent of a single-brand retail company, such as Nike or Fcuk. This is a significant break for global retailers and will spark a flurry of investment activities. However, the relaxed regulations do not extend to companies that sell a variety of brands, such as Wal-Mart and Tesco.

Major international retail players such as WalMart, Carrefour, and Tesco use multi-format and multi-product strategies to cater to specific buying segments, and India will probably follow a similar trend.

India's vast middle class and its almost untapped retail industry are key attractions for global retail giants wanting to enter newer markets. The organized retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyles, strong income growth and favourable demographic patterns. Apart from the above, the

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three key factors would be "Availability of quality real estate", "Best mall management practices" and "Consumer preference for shopping in new environments".

Despite a large playing field for organized retailing, the benefits are often reaped by the unorganized structure. This is possible largely due to the scattered nature of the target segment, making it near impossible to monitor the tax system. Then there is the mindset of customers who tend to regard organized retailers as dearer than organized ones, without distinguishing between in terms of value. Organized retailers are trying to recover lost ground by building a relationship with their customers, catering to their preferences and satisfaction.

4.5 SUMMARY

The importance of retail as an industry can be gauged from the fact that the Fortune 500 list of Global Companies has around 58 retailers and the second company on the list is Wal-Mart. If we want that the retail sector contribute substantially to national GDP and generate employment, certain legal, regulatory and financial reforms are necessary to give a boost to organized retailing. Due attention needs to be given to issues like FDI in retailing, allocation of government-controlled land on quick and convenient terms, a firm political leaderships and transfer of ownership. For a sound retailer to get footfalls, then (some) purchase and then a major share of wallet (the marketing hierarchy of needs), one has to enumerate, internalise and work around the differences which make Indian retail truly *swadeshi.*

4.6 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The US retail sector is said to be world's largest with approximately 4.8 trillion USD sales annually.
2. Wal-Mart
3. France
4. 907220 million USD
5. The retail industry is divided into organized and unorganized sectors
6. 3 per cent
7. At the top
8. Singapore, Hong Kong, Malaysia, Dubai
9. Large segments mean segments like food, clothing, consumer durables, books and music.
10. A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing working-women population and emerging opportunities in the services sector are going to be the key growth drivers of the organized retail sector in India.

4.7 EXERCISES AND QUESTIONS

1. Write about the international perspective on retailing.
2. Write about the Indian retail industry with necessary statistical citations.
3. Give suggestions on improving the current Indian retail scenario, considering the limitations and key drivers.
4. Discuss the prospects of the Indian retail sector.

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4.8 FURTHER READING

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2. Varley Rosemary and Mohammed Rafiq, *Principles of Retail Management*; Palgrave MacMillan, 2005.
3. Levy and Weitz, *Retailing Management*; Irwin, 2004.
4. Dunne, Lusch and Gable, *Retailing*; South-Wester, 2002.
5. Davis and Ward, *Managing Retail Consumption*; John Wiley & Sons, 2002.

UNIT 5 RETAILING ENVIRONMENT

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Structure

5.0 INTRODUCTION

The current retail scenario is entirely different from the one that existed in the past due to the changing environment. Retail business environment is dynamic and a retail professional cannot survive without having the knowledge of the environment. Retail companies are led by strategies, which are their long term plans. These plans have their foundation in the environmental analysis. Managers should not only design the strategy, but also be prepared for contingencies. For example, TESCO had the strategy of entering India through the Indian business partners for which it identified Bharati and TATA as potential partners, but due to reasons unknown the deal did not materialize. Now it has embraced an alternative plan to enter India solely through the cash and carry format. As far as Bharati is concerned, it has agreed on partnering with Wal-Mart. For Wal-Mart, the largest retail company in the world, it is good news, because it can finally enter Indian retail market, after having put in six years to understand the Indian retail environment and the possible opportunities. Today companies like Pantaloon, Ebony, Shoppers Stop and Trent have increased their marketing budgets after sensing a threat from the environment, in the form of new international entrants and the increasing Indian retail aspirants.

5.1 UNIT OBJECTIVES

- Understanding what is meant by retail environment
- Appreciating the retail contribution to economy
- Learning about the various environmental factors affecting retail business

5.2 RETAIL ENVIRONMENT

The degree to which modern-day smaller retailers on major retail corporations adopt the retailing concept determines their success. The retailing concept requires that a retailer ascertain the needs of his target-market and satisfy them for better than his competitors. The three crucial environmental factors influencing modern-day retailing are:

- Competition. All kinds of stores and retail outlets are in competition with each other for the consumer's money.

- Trends in consumer demographic and style of timing and their potential/likely effect on retail strategies.
- The requirements, desires and decision-making processes need by the retail consumers.

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Environment refers to the surroundings. In this Unit we will specifically study the retail business environment. Business gets input from the environment and gives output back to the environment. The success or failure of any retail business is decided by the "environmental forces". Environmental forces refer to all external forces which have a bearing on the functioning of the business. Environmental factors or constraints are largely if not totally external and beyond the control of individual retail business and its management. These are essentially the givers within which firms and their managements must operate in a specific country and they vary, often greatly from country to country. This unit aims to provide an understanding of the environment, for strategic management of the retail business.

Retail environment is important not only because of the uncontrollable elements that we must be aware of but also because of the controllable elements that help us in gaining an edge to succeed. The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. As a retail professional, a manager is expected to seize the opportunities and combat the threats effectively.

For a better understanding and analysis of the environment, all the retail environmental factors are divided into two types: (1) Macro environmental factors, and (2) Micro environmental factors.

All the environmental factors that indirectly influence the retail business and are uncontrollable can be classified as Macro environmental factors. These factors are farthest from the retail business. The Macro environmental factors are "givers" and the retail business is called the "taker" because of the uncontrollable nature of the macro environmental factors. The macro environmental factors can be broadly classified into socio-cultural, technological, economic, political, legal, international and natural factors.

All the environmental factors that are directly influencing the retail business and are relatively controllable can be classified as Micro environmental factors. These factors are nearer to the retail business. The Macro environmental factors influence the business indirectly through the micro environmental factors. For example, an increase in inflation will affect the suppliers and due to increase in price charged by suppliers, the profit of retail business will decrease. The micro environmental factors include suppliers, customers, competitors, society and other stakeholders.

Environmental Analysis

Retail success depends on an environmental analysis, because firms which systematically analyse and diagnose the environment are more effective than those which don't. The two main objectives of the environmental analysis are:

1. To provide an understanding of current and potential changes taking place in the environment.
2. To provide inputs for strategic decision-making.

Environmental analysis consists of four steps:

1. **Scanning**: It involves general surveillance of all environmental factors and their implications in order to identify early signals of possible environmental changes and detect changes that are underway.
2. **Monitoring**: It involves tracking environmental trends, sequence of events, or streams of activities. It involves following important signals or indicators unearthed during environmental scanning.

3. **Forecasting**: Scanning and monitoring provide a picture of what has already taken place and what is happening. Strategic decision-making, however, requires a future orientation; it needs a picture of what is likely to take place. Thus forecasting is an essential element in environmental analysis.
4. **Assessment**: It involves studying the degree of impact of the data collected through scanning, monitoring and forecasting on the organization's current and future strategies. In assessment, the frame of reference moves from understanding the environment to identifying what that understanding means for the organization.

Though the concept of environmental analysis is indispensable, it should be done after understanding its limitations. The following points should be kept in mind while doing an environmental analysis.

1. Environmental analysis does not foretell the future nor does it eliminate uncertainty for any organization. It only helps in minimising the risk by reducing uncertainty.
2. Environmental analysis doesn't by itself guarantee organizational effectiveness. It provides inputs for making a better strategy.
3. Data got from environmental analysis should be validated for accuracy and reliability before accepting it.
4. Too much of data and analysis will paralyse the action.

5.3 ECONOMIC ENVIRONMENT

Economic environment refers to all forces which have an economic impact on business. Industrial production, agriculture, planning, basic economic philosophy, infrastructure, national income, per capita income, money supply, price level, population, savings, stages in the economic development and trade cycles are major factors which make up the total economic environment.

The economic environment encompasses the whole economy, the various economic institutions, including the competing business enterprises with which business has to deal. The economic environment is set by the type of national economic system including the nature of property rights, ownership of means of production, production relations, role of planning, functions of price mechanisms, etc. The government influences the economic environment of business through economic planning, monetary policies, fiscal policies and budgets, industrial regulations, business laws, controls on prices and wages and commercial policies affecting export and import. For instance, if the government announces a cut in the excise duty on the motor vehicles, the sales of business firms manufacturing motor vehicles will go up. Similarly, if the government exempts export units from income tax, such business units will get a boost.

The economic environment of business also includes all markets in which it buys and sells, raises funds, gets labour, etc. Business is invariably influenced by the conditions of various markets. For instance, if there is uncertainty in the capital market, it will not be advisable to go in for a public issue because of the risk of poor response.

Retail Contribution to Economy

1. **Contribution to GDP**: The GDP of a country, which is the total value of all final goods and services produced in an economy in a one year period, is a significant measure of economic development of a country. For 2006, Indian GDP was forecasted at 8 per cent but in the very first half year, it crossed the expectations by registering a GDP growth rate of 9.1 per cent. Retail contributes about 10 per cent of Indian GDP.

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2. **Contribution through FDI**: Retailing is increasingly a global business. A more structured retail industry with more multiple retailers is a sign that an economy is developing. As the artificial barriers to trade, such as import duty and quota restrictions, are removed from the global economy, many retailers will view the world as their marketplace and make sourcing and outlet operation decisions on a set of criteria that are relevant across the globe. Thus increasing GRDI ranking is attracting more funds into Indian retail through FDI.
3. **Entrepreneurship–Self employment**: Retail is a significant contributor in making a person, an independent businessman. The 13 million retail outlets are the starting points for budding entrepreneurs.
4. **Tourism/Outbound Shopping**: One of the best features of any city that attracts a large number of tourists every year — London, Singapore, Dubai, New York and so on — is a well-developed shopping environment. Organized retailing will significantly help in developing our cities as tourist destinations. And, if well-marketed and managed, it can enhance government revenues, apart from spreading the word about ethnic Indian brands across the world.
5. **Employment**: The Indian retail sector offers an economic opportunity on a massive scale both as a global base and a domestic market. This sector yields many positive results like generating more jobs and bringing numerous goods to the consumers at reasonable prices.

   Currently, the Indian retail business employs nearly 21 million people, which is around 7 per cent of total employment. According to Ernst &Young's report, *'The Great Indian Retail Story'* this sector is expected to create 2 million jobs by 2010.

   Retailing is hugely labour-intensive, and studies indicate that given the level of investment expected, it has the potential to generate an additional 8 million jobs, both direct and indirect. The retail industry, in a way, is creating employment for a group of people for whom there were few opportunities. For instance, it has a high number of female employees compared to other sectors.

   About 4 crore people are employed in retail trade, assuming each person supports a family of five, this, implies that about 20 crore people are dependent on this sector. For a vast majority of the households, retailing is a euphemism for marginal existence. Modern retail formats have generated employment for the young and even senior citizens and women wanting to work part-time (even in small towns). People have greater exposure to the technical aspects, training and also earn higher salaries along with bonuses and incentives. With foreign companies coming into India, employees are being re-trained according to international standards and practices that are being bought in. There is also an increase in the number of retail management programmes and institutes. This will bridge the gap in availability of talented professionals at the middle and lower levels. Successful Indian retailers are creating a robust second and third level of management by hiring aggressively for these key roles.

5.4 POLITICAL ENVIRONMENT

Political environment refers to the influence exerted by the three political institutions viz. legislature, executive and judiciary in shaping, directing, developing and controlling business activities. A stable and dynamic political environment is indispensable for business growth. The Indian political system started with India becoming a republic and the political system is in line with that of the British. A brief about the political history and system is given below.

India became independent on 15 August, 1947. It became a republic when its constitution came into effect on 26 January, 1950, declaring the nation to be a union of states, a sovereign,

socialist, democratic Republic having a parliamentary system of government at the Centre and in the states. Under the Constitution of India, the people are guaranteed certain fundamental rights, such as freedom of religion, of occupation and speech, as well as the right to vote. The largest practising democracy in the world, elections in India are based on universal adult suffrage. General elections are held every five years.

As of date, the union of India is made up of 28 states and 7 union territories. The Central Government is at New Delhi, the country's capital. As per the Constitution, the political structure is federal in nature and unitary in spirit. The states and the centre have specific legislative powers and revenues, whilst the residual powers remain with the Centre. There are some subjects that fall under the joint control of the Centre and the states; however, where necessary, the Centre supersedes the state. At both levels the powers of government are divided amongst the Executive, Legislature and Judiciary.

The Central Executive is made up of the President, Vice-President and the Council of Ministers headed by the Prime Minister. The Union legislature or Parliament has two houses, the Lok Sabha or Lower House and Rajya Sabha or Upper House. The Lok Sabha is elected by the people of India from individual, single majority constituencies while the Rajya Sabha is elected by the State Legislatures. The laters are directly elected by the people in the same manner as the Lok Sabha. Judicial power rests with the Supreme Court of India. The states have a parallel structure, the Executive being made up of the governor, who is appointed by the President of India, the Council of Ministers headed by the Chief Minister and responsible to the directly elected Legislative Assembly and the High Court. States in turn are divided into districts, which are further divided into municipalities, then blocks down to the individual village. The distribution of powers at each level follows as a pattern similar to that at the Centre and states.

The political system is important for retailing because the key decisions on retail sector like allowing FDI, tax policies and the power to recognise retail as an industry, vest in the hands of the political system.

5.5 LEGAL ENVIRONMENT

Legal environment which is determined by various laws and court decisions also puts pressure on business. It regulates production, sets quality standards and deters unfair trade practices. It stipulates how finances should be raised, deployed, managed and accounted for. For instance, several tanneries in Kanpur were ordered to be closed down by the Supreme Court, as they were polluting the Holy Ganges.

The core of any legal environment is its legal system. The Indian legal system is represented by the courts. In conventional political science theory, the legislature legislates, executive enforces the law and courts settle dispute by interpreting the law. Courts are thus the institutions where disputes are adjudicated and justice administered. There is a hierarchy of courts in India. The system of courts in India is like a pyramid. The Supreme Court is the apex judicial body. It can take up a case arising anywhere in India, in relation to any law. The next in the hierarchy are the high courts, in the different states. The high courts can take up cases in relation to any law, but they should arise only from within the state. However, there are usually two to three layers of courts below the high courts. At the level of lower courts, a division is made between civil and criminal matters. The lower courts function under the administrative control of the high court. The administration of criminal justice is done according to the criminal procedure code. The criminal procedure code provides the details of the criminal courts and their jurisdiction, on the basis of the territory and severity of the crime. A district has first and second class magistrates. The jurisdiction of the magistrates depends upon the severity of the crime. Above the magistrates court is the sessions court. Usually, there is one sessions court in each district. This structure forms the system of criminal administration at the district level. There is a system of going

in appeal to a superior court. Cases, thus, move from lower courts to the high court.

For civil matters, the Civil Procedure Code (CPC) provides the structure of the civil courts at the district level. The hierarchy of courts, in ascending order is the Munsiff's court, the sub-divisional court and the district court. A civil matter goes to a particular court depending on the pecuniary value of the dispute between the parties. Parties move in appeal from a lower court to a higher court. A civil case thus moves from the lower courts to the high court. At the level of the high court, the division between civil and criminal cases disappears.

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5.6 TECHNOLOGICAL ENVIRONMENT

Technological environment exercises considerable influence on business. Technology is understood as the systematic application of scientific or other organized knowledge to practical tasks. Technology changes very fast and to keep pace with it, a retail professional should adopt new technology to his business.

The significance of information technology is facilitating process improvements and thereby greater operating efficiencies and profits has downed upon the organized retail industry. However, due to poor knowledge about availability of IT systems, people are not able to make good choices. While one organized retailer installs simple point of sale (PoS) system, another may have complex retail ERPs.

The very face of the retailing industry in undergoing a makeover, thanks to technology. It is a simple matter now to manage large set-ups with the help of point of sale equipment, bar codes and tremendous storage capacity for billing and payment database. Sales and volume of transactions can now be minutely analysed due to recording of operations in a structured and systematic manner. Sales have received a boost through electronic transactions, flexibility in mode of payment and cashless transactions, and communication.

Although retailers may find getting accustomed to new technology a complicated affair, its convenience and cost-effectiveness urges hem to adapt to it. It is easy for large stores to keep track of inventories and expenses into the help of automated machines and high-end computers. Advanced security systems allow customers and retailers to shop and sell in a relieved manner. These are new entrants with the country, whose need has been acknowledged.

It is chiefly the large, medium sized and manufacturer retailers in India who are going in for simple Point of Sale (PoS) systems to complex retail ERPs. Backend operations are more efficiently managed by ERP packages and solutions like Retail Pro, and other such as JDA, SAPIS Retail or Retek. Big Retailers are also able to minimise costs and improve efficiency through mobile computing and B2C concepts, although returns on such investments are long in coming.

Today retailers rely on IT solutions like CRM, OLAP, CPFR tools to conduct behavioural analysis to remain in the competitive market. Large retailers are finding it difficult to fully utilize to retail ERP packages they have installed, due to inadequate training, although their demand is bound to rise.

In the developed countries, as many as 400 to 500 megabytes of data flow from point of sales counters to corporate headquarters of retail chains on a daily basis. This strengthens the working bond between retailer and vendor, enabling them to guage the demands of consumers, lessen lead time, bring down inventory holdings, resulting in an overall cost reduction. Other advantage of a retailing database are that you can keep a check on buying behaviour through the demographic and psychographic information at your disposal. Thus technology does much more than improving operational efficiency, actually contributing to building the retail business.

A financially viable way to draw and retain consumers is electronic communication like e-marketing, thanks to the spurt in awareness and spread of the use of the Internet. This can

Check Your Progress

1. Which Indian company has tied up with Wal-Mart, for retail business in India?
2. What are the three critical environmental factors affecting retail today?
3. What are the steps involved in environmental scanning?
4. Technological environment belongs to micro-environment. State whether true or false.

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cover a vast gamut of activities, from home shopping, direct mails, telemarketing to enhancing the growth of kiosks, intelligent vending machines, PC net shops and the like.

The retailers and the IT systems used by them fall in the following categories:

Larger retailers with a chain of more than 30 stores: Chiefly comprising supermarkets and departmental stores, these retailers use custom-built systems, some going in for ERP packages to handle their back-office systems.

Medium sized retailers with over 5 stores, and plans for 15-20 stores in the next 2 years: Most of these retailers handle departmental store formats offering many different goods. Some put their private label on everything that they sell through their stores. Much time and effort has been taken by these retailers to encourage the use of packaged IT solutions for PoS, demand prediction, purchase orders and inventory management. A favourite in India as well as many other countries in Retail Pro, suitable for retailers having 1 to 50 stores. Those handling over 300 stores prefer JDA, SAPIS Retail or Retek, although the returns on such investments can take as long as 5-8 years.

The manufacturer-retailer: The ownership of such retail showrooms is either the manufacturer's or his franchisees, who would own and manage the set-up. Such outlets may opt either for Retail Pro for PoS and back-office, or have vendors develop suitable software for the purpose The drawback is that the IT packages in the manufacturer's own stores and those of the franchisees are not the same, resulting in problems of data integration and delay in giving information to the head office.

Small retailers with less than 5 stores: In this country one would find specialty apparel retailers, discount stores or departmental stores, most of whom would get the required software developed by vendors.

For immediate purposes, retailers tend to rely on existing IT resources for information, the objective being to get maximum gains from their IT investments. In order to know their customers better and get respect business from them, what the retailer requires is Customer Relationship Management (CRM) or On-line Analytical Processing (OLAP) software.

Customer Relationship Management (CRM)

There is a number of CRM packages like Talisma, Siebel, Clarify, Retek CRM, Sales Logix and move, which can be used to manage campaigns, get an idea of the buying patterns of 'loyalty cardholders' and integrate multi-channel sales. The limitation is that such packages only record purchases that can be traced through loyalty cards given to consumers, comprising barely 25-30 per cent of the total sales. The advantage is that the buying habits these customers can be understood in detail and future strategies planned accordingly.

On-Line Analytical Processing (OLAP) Tools

To overcome the aforementioned drawback and analyse a larger filed of data, retailers use OLAP tools like Arthur Planning, Oracle Analyser, Adaytum, Cognos, Business Objects, etc. such tools perform many functions: they analyse the sales data from the PoS identify the sales trend for all kinds of goods sold from all the stores, giving the retailer good idea of what was sold, how often, it whom, where and what to expect in case of change in the sales pattern and price.

B2B Software

Manufacturer-retailers and retailers promoting their own private tables need to keep a hawk's eye on the entire manufacturing and supply chain. This task can be accomplished with under management software which uses the Internet. At the B2B site the retailer can specify the garment design to the vendor, keep a check on the fabric purchased, supervise the

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stitching and delivery of the apparel to his delivery centre (DC) as well as the invoice and payment to the vendor. In turn, vendors can feed in their data. Overall, this reduces costs and ensures that the goods reach the stores.

Collaborative Planning and Forecasting (CPFR) Tools

Collaborative Planning and Forecasting Tools use a web-based system built as per the requirements of the retailer and vendor and help to control costs for both. This is possible because the goods requirement of the retailer are first planned, on the basis of which production is undertaken.

For this short-term purposes, the organized retailer can serve his customers better by with the help of CRM and OLAP tools, brining down costs by using web-based systems of vendor management and CPFR.

To enjoy the competitive advantage over 2-3 years, the retailer needs to view the existing IT infrastructure versus his future requirements, and develop the former. The weak Economic scenario in the country, and fall in sales and productivity, retailers would to well to examine their internal systems and procedures. Redundant activities should be substituted with efficient systems and procedures in order to define a standard for the future. Thereafter, retailers must learn how IT can efficiently implement the new or modified systems and procedures such as computer systems, hardware, software and networking. They must also know the manner in which IT systems would be integrated and networked through their stores and head office in the country.

Retail ERP Packages

Indian retailers need to take a dispassionate view of the future role of ERP retail packages like JDA, SAPIS Retail and Retailer, most of which have built-in CRM, OLAP tools and well integrated collaborative planning and supply chain systems with merchandising and forecasting. As these are expensive packages and give slow returns on investment, indigenous alternatives that are cost effective need to be developed. Retailers could source the software from a single vendor organization taking care of all their IT requirements.

In the Indian context, particularly, it has been difficult to implement Retail ERPs because of lack of indigenous expertise for the same. And getting package experts from other countries results in higher costs. However, expertise in ERD packages and their implementation is now being develop in India and in a matter of 2-3 years should be able to satisfy the needs of our retailers.

Business Optimisation Software

(*a*) **Product Pricing Software:** Retailers who carry thousands of products/SKUs face the constant challenge of always pricing all products in a manner that every sale gives them a net profit. This task has been made easier through sophisticated price optimisation/revenue management techniques.

Much research has been done in his area by 45-based software vendors. Demand Tech and Khimetrics, who have developed and beta tested their products to enable optimising product prices. Retailers must keep themselves up-to-date with such developments so that they are read for these tools when they come to India.

(*b*) **Merchandise Optimisation Software:** Retailers are always hard-pressed to find ways of satisfying customer needs. When a required item is not available, customers are naturally disappointed, which is why goods are often sold at prices comes than the usual. An emerging solution is a new set of software applications that examine existing inventory and sales data to accurately determine what the future trend of

supply and demand will be at the item and stock level. Although the use of these has just begun, more and more large retail organizations are bound to patronise there in the near future.

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Mobile Computing

Thanks to mobile computing enhancing inventory and supply chain efficiency, retailers have been able to reduce costs. The importance of WAP (Wireless Application Protocol) enabled, handhold personal digital assistants (PDAs) and mobile phones in retail operations cannot be underestimated. Mobile computing allows inventory positions of actual stock at the stores to be relayed to back-office computers via mobile devices for verification of stock. Ordering items through WAP-enabled PDAs helps to increase supply chain efficiency.

B2C

We do not see much of B2C retailing in India, perhaps due to the consumer's uncertainty regarding the security of payment systems and supply chain efficiency. Sooner than later, retailers will have to do something about the inefficiencies that plague the consumer regarding delivery of his articles. An IT infrastructure will have to be established so that such transacted through the Internet.

Retail Exchanges

Of the many retail exchanges set up in the US and in Europe, is the World Wide Retail Exchange, through which retailers can interact with vendors and other retailers for B2B transactions. In this may transaction costs are reduced.

India too could well do with such exchanges. Ultimately, Indian retailer will need to go in for an integrated IT support system to cater to their information requirements. The ground work most begin now so that when business progresses in the future, retailer are well equipped to handle it.

5.7 GLOBAL ENVIRONMENT

The forces in the international environment may have an adverse or a favourable impact on business. For example, the disintegration of USSR caused great miseries for Indian exporters in the early 90s. Not only was their investment blocked, further exports were also hindered. This compelled the Indian business persons to explore new export markets. The role of WTO, IMF, WB and other international institutions will change and new economic order will take place leading to globalization of economies.

Due to liberalization of Indian economy, globalization has become a buzzword. In simple economic terms, globalization refers to the process of integration of the world into one huge market. Such unification calls for removal of all trade barriers among countries.

In the international environment one of important institutions influencing the trade is WTO. WTO is an international, multilateral organization, which sets the rules for the global trading system and resolves disputes between its member states; all of whom are signatories to its approximately 30 agreements.

The WTO headquarters are located at Geneva, Switzerland. The current Director-General, Pascal Lamy took over from the Director-General Supachai Panitchpakdi on September 1, 2005. As of November 7, 2006, there were 149 members in the organization with Vietnam set to join 30 days after it notified the WTO that it had ratified its membership agreements. The WTO states that its aims are to increase international trade by promoting

Check Your Progress

5. What is the percentage contribution of retail to Indian GDP?
6. What is a CPFR tool?
7. What is WTO?
8. Who is the current director general of WTO?

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lower trade barriers and providing a platform for the negotiation of trade and to their business.

In case of Indian Retail, there is more of a threat than opportunity from the global retail environment because Indian retailers are small in comparison to the global retail giant. We cannot even think of Indian Retail having a global presence because, today Indian Retail is thinking of various strategies to protect itself from the various international giants entering India through partnerships, cash and carry, etc.

5.8 SUMMARY

Business environment means the sum of all external forces and conditions that influence business and potentially affect its performance. Some environmental factors impose several constraints on the business enterprise, whereas some act as facilitators. In fact, the same factor may impose some obligations and also bestow certain privileges on business. In any case, they have considerable impact and influence on the scope and direction of business activities. In fact, the performance of the business unit is to a great extent determined by these external forces.

While interacting with the environment, business has to take certain decisions, which are partly controlled by the external forces. Many a time, business has to identify itself completely with the environment and fit in with environmental framework. It is to be noted that while business is affected by its environment, it also effects its environment.

Also, the relationship between business and its environment is one of mutual benefit. That environment where business and environment have a proactive and symbiotic relationship is desirable and idealistic.

5.9 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Bharati has agreed on partnering with Wal-Mart.
2. Three critical environmental factors affect retailing today:
   - Competition, because each department store, specialty store, or other type of retail outlet is competing against all others for the consumer's dollar.
   - Consumer demographic and lifestyle trends and the impact they will have on retail strategies.
   - Needs, wants, and decision-making processes that retail consumers' utilise.
3. Scanning involves general surveillance of all environmental factors and their implications in order to identify early signals of possible environmental changes and detect changes that are underway.
4. False
5. Retail contributes about 10 per cent of Indian GDP.
6. The use of collaborative planning and forecasting tools (CPFR) would help control costs for the vendor and the retailer, as production would take place after taking into account the planned merchandise requirements of the retailer. This would be a Web-based system, and could be built to suit the needs of the retailer and the vendor.
7. WTO is an international, multilateral organization, which sets the rules for the global trading system and resolves disputes between its member states; all of whom are signatories to its approximately 30 agreements.
8. Pascal Lamy

5.10 EXERCISES AND QUESTIONS

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1. What is environment and what are the types of environment?
2. How does retail benefit the economy?
3. Explain the role of technology in retail environment?
4. What is legal environment and how does it affect retail?
5. Discuss retail in the context of global environment?

5.11 FURTHER READING

1. Berman and Evans, *Retail Management*; Prentice Hall, 2004.
2. Varley Rosemary and Mohammed Rafiq, *Principles of Retail Management*; Palgrave MacMillan, 2005.
3. Levy and Weitz, *Retailing Management*; Irwin, 2004.
4. Dunne, Lusch and Gable, *Retailing*; South-Wester, 2002.
5. Davis and Ward, *Managing Retail Consumption*; John Wiley & Sons, 2002.

UNIT 6 THE COMPETITIVE ENVIRONMENT

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Structure

6.0 INTRODUCTION

Competition in retail has already set in. Indian retail market is ruled by the business players with huge capitals. The future group is the best example for this. Future group is into almost all popular formats and sectors of retailing. The product range include groceries, food, electronics, furniture, books, music, apparel, health care, beauty care, watches and sunglasses, toys, footwear, gifts, and stationary. The services include leisure and entertainment like bowling, entertainment zone, etc. The formats include e-tailing through future bazaar, hyper markets, discount stores, and so on. The target customer group includes all members of the family, of all sizes, of all income groups. To compete with such huge retail giant it is not possible for any ordinary retail company. Recently, Reliance is touted to be capable of becoming a competitor for the future group but only time will prove whether it's a hype or reality. To analyse the competition and being prepared for the future is the order of the day. The purpose of this unit is to facilitate the analysis and understanding of the nature and dynamics of retail competition.

6.1 UNIT OBJECTIVES

- Understanding the competitive environment
- Understanding how to measure the competition
- Discussing the various classifications of competitors
- Understanding competition analysis

6.2 COMPETITIVE ENVIRONMENT: AN OVERVIEW

Competitive and industrial analyses help in gaining insights into the competitive environment. In addition, the retail planner needs to know how, why and when the competition will respond to changes in retailer tactics and executions. The way a retail firm operates, the demand for its products, and the cost structures that it faces in the running of the business, are all affected by the competitive behaviour of other retailers in the sector. It is therefore crucial that retailers understand their competitors and the competitive situation facing them. Retailing competition has a number of unique features including intra type and intertype competition, the coexistence of large chains and small independents despite the increasing concentration, and the importance of local competition. With increasing internationalisation

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of retailers, domestic competitors are not the only ones that retailers have to worry about. This is evident from the number of competitors present and the new entrants list. The current list includes Tatas (Infiniti Retail and Trent), Ambanis (Fresh and Fresh Plus), Goenkas (Spencer's), ITC (Chaupal Sagar), Biyanis (Pantaloon and Big Bazaar), Rahejas (Shoppers' Stop), Piramals (Pyramid) and not to forget old warriors like Bata, Raymond, Arvind and Titan and new entrants are Birlas (Aditya), Bharatis (Sunil Mittal), Essar (Ruias), and Ambanis (Anil). This is only the major player list; the list becomes mind-boggling if the local medium and small companies are included (like Heritage, Subhiksha, Nilgiris, Vivek, Akbarally and so on. This list is of Indian players. Global majors like Wal-Mart, Carrefour and Tesco are also waiting in the wings to unveil their plans.

Measure of Retail Competition

1. **Geographic or Market Analysis—Key Area Analysis:** A geographic or market analysis is undertaken by the retail planner to understand which geographic areas are key areas – either because of the strong position the retailer enjoys in a particular area or because of problems associated with doing business in that area. In addition, data gathered in the market analysis provide the retail planner with geographic information that facilitates budget allocation.
2. **Concentration in Market—General Measure:** A frequently-used measure of competitiveness of a market is the degree of concentration in the market. Retail concentration can be measured in a number of ways, but the one that is used most often is the percentage of the total market that is controlled by the largest four to five retailers in a particular sector.
3. **Concentration in Market – Herfindahl Hirschman Index (HHI) Measure:** The HHI is a commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in a market and adding up the results. The range to the HHI number can be from zero to 10,000. The HHI is expressed as:

   HHI = $S_1^2 + S_2^2 + S_3^2 + ... + S_n^2$ (where S_n is the market share of its firm).

   A market's concentration is directly, proportionate to its degree of being a monopoly, and increasely to its competition. For instance, a single firm in an industry would have 100 per cent market share, and the HHI would equal 10,000 (1002), indicating a monopoly. But, with thousands of firm competing, the market share and thereby HHI would be close to zero, a situation of nearly perfect competition.
4. **Alternative Measure – Ratio of Stores:** Whilst measures of retail concentration and market shares are good indicators of the intensity of competition, data required for these measures are not always available. An alternative measure is the number of retail outlets of a particular type per thousand of population. The higher this ratio, the higher is the competitive intensity. When the ratio of stores to the population gets too high, the market is described as *overstated.* That is, the size of the population is insufficient for all the stores to operate profitably, leading to intense competition as competing retailers try to improve their sales and profit performance. Conversely, if the ratio of stores to population is relatively small, the market is said be *understored.* In this situation there is unsatisfied demand and existing retailers enjoy high profits. This leads to existing retailers expanding their operations and also attracting other retailers into the market. The above discussion assumes that all competing stores are of the same size. A more accurate measure is the total amount of retail space occupied by a particular type of retailer per thousand of population (or per head of population).

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6.3 TYPES OF COMPETITION

All the above measures of competition are incomplete because they measure only the direct competition. If competition has to be analysed in a full-fledged way, then one has to consider the indirect competition. Here, direct means implicit and indirect means explicit competition. Direct or implicit competition is also called intra type competition. Before using more jargons, let us understand the three different types of competition. These are displayed in Figure 6.1.

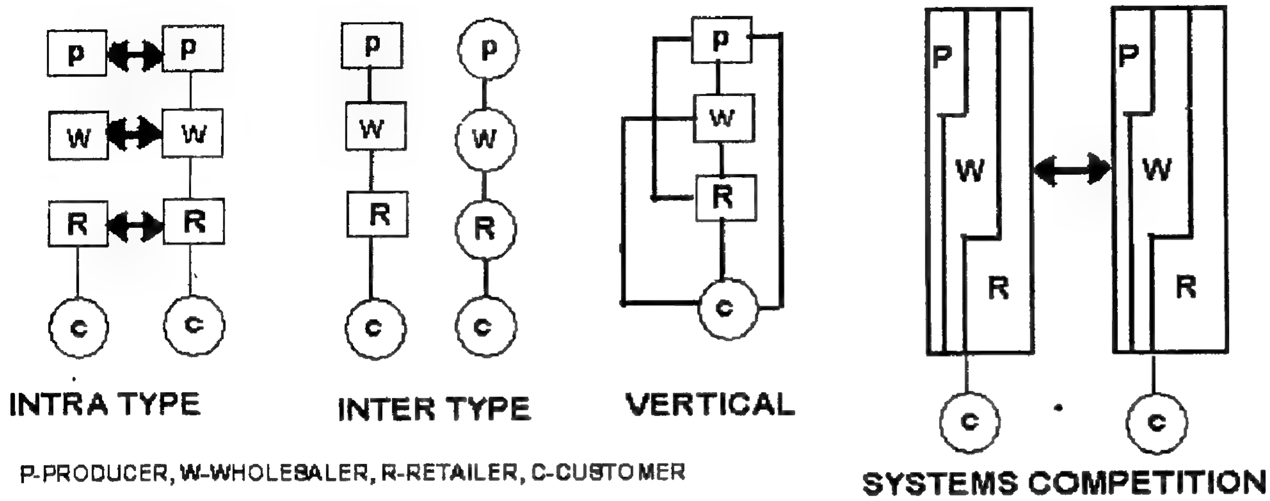

Figure 6.1: *Different Types of Competition*

Intratype competition is direct competition between similar *types* of retail formats or trading styles (see Figure 6.1). The more similar the stores in terms of format, the more intense the competition. To reduce the impact of competition from similar retail formats, retailers must differentiate themselves from intratype competitors. However, retailers also face intertype competition.

Intertype competition is competition between different types of retail formats selling the same type of merchandise (see Figure 6.1). For instance, retailers such as Food World face competition not only from other specialists such as Food Bazaar, but also from stores such as Trinetra supermarket. Hence, while developing competitive strategies, retailers have to take into account both intertype competition as well as direct competition from direct competitors.

Competition can also exist between different parts of the distribution channel. Vertical competition is competition between retailer and a producer or a wholesaler selling products to the retailer's customers. For instance, if a retailer stocked a merchandise line that the producer was also offered through Internet, the retailer and the producer would be engaging in vertical competition.

Another type of competitive strategy in retailing is corporate system competition. This exists where the manufacturing, distribution and retailing are controlled by single-management. Examples include Bata and Liberty. Corporate systems can be formed by either backward or forward integration. Forward integration occurs where a manufacturer has his own distribution and retailing network. An example of forward integration is Benetton which began as a manufacturer and then set up company-owned retail outlets as well as an international franchise network. Backward integration involves retailers becoming involved in the distribution and manufacturing of products.

However, major retailers attempt to achieve the same control without total ownership of the systems. For instance, Marks and Spencer is famous for its control over its suppliers; other large retailers are also able to achieve this control because the suppliers may have few (if any) alternative customers, and may be solely concerned with retailing branded products. Another method of exercising control is by franchising parts of the system, for instance, the vast majority of car dealerships are operated as franchises by the major car manufacturers.

6.4 A FRAMEWORK FOR ANALYSING COMPETITION

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A useful model for analysing the forces driving competition is Porter's (1980) five forces model of competitive structure. According to Porter, the forces that drive competition within an industry are threats of potential entrants, threats of substitute products or services, the bargaining power of suppliers, and the bargaining power of buyers. This has been illustrated in Figure 6.2. The different aspects of the model are discussed below.

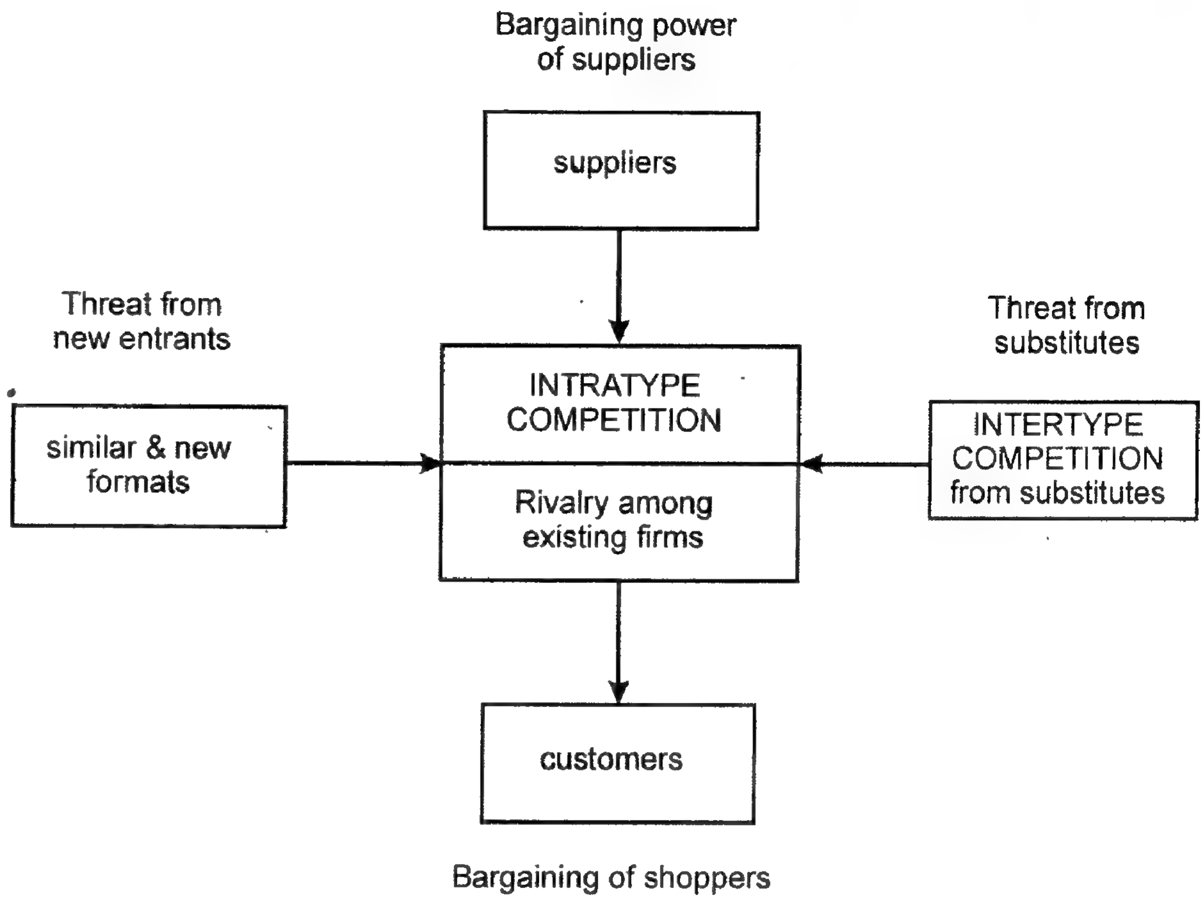

Figure 6.2: *Porter's Five Forces Model of Competitive Structure*

The Threat of New Entrants

A major driving force of competition within retailing is the threat of potential new entrants into the industry. The degree to which potential entrants find a particular sector of retailing attractive to enter depends upon the level of profitability of the sector and the barriers to entry. Generally speaking, the higher the profitability of a retail sector, the more attractive it is to potential entrants. Similarly, the lower the barriers to entry the greater the likelihood of new entrants.

Assuming that there are sufficiently high levels of profits within a retail sector, the threat of new competitors entering the industry depends on the height of entry barriers to the industry including capital requirements, economies of scale, access to customers, access to suppliers or distribution networks, the degree of differentiation, brand identity and store loyalty, and expected retaliation.

Capital requirements

The amount of capital required to enter into retailing is relatively small compared with other industries. For instance, the capital required to set up a bookshop is minimal compared with cost of entering capital-intensive car manufacturing or aircraft manufacturing industries. However, to be competitive against national retailers requires far more capital. This is because greater investment will be required in stock, stores, promotion, IT and other management systems.

Check Your Progress

1. Who are the different retailers in India?
2. What is HHI?
3. Define the term "Ratio of stores".
4. What is Intratype competition?
5. What do you mean by bargaining power of buyers/ customers?

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Economies of scale

The ability to achieve a reduction in costs through efficient large-scale operations can prevent the entry of new competitors. In retailing, major scale economies can come up in the areas of buying, distribution and promotion.

Access to customers or availability of sites

In order to get access to customers, the main problem for new entrants is to find suitable sites/locations for their stores. New entrants will normally find that the best sites are already occupied by existing retailers. It also takes time for new retailers to acquire suitable sites and open new stores, which gives existing retailers plenty of time to formulate their competitive strategies to combat the threat posed by new entrants. New entrants wishing to open large stores find it particularly difficult to enter the market because of strict planning regulations.

Differentiation, brand identity and store loyalty

New entrants into an industry also have to overcome brand/store loyalty developed by existing retailers. New entrants may have little recognition in the market and will therefore require extensive promotional effort to inform potential customers about the retailer and to switch customers away from their existing stores. The cost to customers of switching to a new store may also make entry difficult for new entrants. However, the switching costs of customers are generally small and not a major obstacle to new entrants.

Access to suppliers/distribution networks

New retailers may find that they do not have access to some suppliers because the suppliers either lack the capacity or their relationship with existing retailers prevents them from supplying new entrants on similar terms. The cost of building an efficient distribution network (warehousing facilities) also makes entry difficult for potential new competitors.

Expected retaliation

The strength of retaliation by existing retailers can put off potential new entrants. Such retaliation may be in the form of changes in pricing, advertising and promotions, merchandising, and service depending on the strength or perceived strength of the new entrant. New format entrants are potentially more difficult to deal with, as their basis of competition (or competitive advantage) is different from existing retailers. In the case of Netto (and other discounters), for example, it is able to offer prices 20 to 30 per cent lower than those of large supermarkets on a limited number of lines.

Bargaining Power of Suppliers

The dominance of the majority of the retail sectors by large retailers has transformed the power relations between retailers and suppliers. In the past, big brand manufacturers could virtually dictate to retailers the shelf price, product range, shelving and promotion of products within stores. However, development of own brands and the increase in size of retailers (and their resulting concentration) has eroded the power of suppliers. An indication of the power of retailers is that large supermarkets can nowadays demand slotting allowances (or fees) from suppliers for stocking their merchandise in the stores.

The influence of suppliers on retailers depends on the relative size of the suppliers to the retailers. Some of the manufacturers such as Bisleri, HLL, and Procter and Gamble, have market shares far in excess of retailers in their respective markets and are in a position to negotiate terms of trade. These suppliers derive their power from the strengths of their brands and the loyalty of customers to them.

Smaller retailers, on the other hand, are particularly vulnerable to pressure. They can be forced by suppliers to carry products they do not particularly want in return for the

right to sell the products that they do want from the suppliers. Suppliers may also apply pressure on retailers to sell products within an acceptable price range. Franchisees are particularly prone to such pressures because of the contractual basis of the franchise relationship.

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Bargaining Power of Shoppers

Today discount stores that provide value are attracting large competition than the other formats. This is because of the high middle income population that seeks value. Retailers like Subhiksha and Big Bazaar provide value for money. Even these retailers will face the pressure from the buyers if a new store offering a lower price comes up or an existing store becomes a loss leader. Certainly a lower price strategy than the existing competitor's is an obvious solution but for how long can the loss leader pricing strategy work?

Shoppers have little impact on retailers' competitive strategies. The main reason for this is that shoppers' purchases are normally small in comparison to the retailer's total sales. Shoppers are also relatively immobile and uninformed; immobile in the sense that they are not willing (or unable) to travel long distances to find the right products, and less informed than retailers about product prices, and availability and quality. However, the Internet has reduced the mobility and information barriers to some extent.

On the other hand, the relative smallness of shoppers' transactions means that the cost of switching from one retailer to another is also relatively small: hence, retailers can find that shoppers are quick to switch when more competitive offers are available from another retailer. Retailers also have to be careful not to exploit their advantage in the market as they are likely to see their activities regulated and circumscribed by legislation and regulatory authorities. The Consumer Protection Act is an example of regulatory authorities responding to consumer concerns.

Threat of Substitutes

All retailers are likely to face some form of intertype competition. For instance, the majority of newspaper sales are through magazine specialists and variety stores. However, newspapers are also sold through monthly offline and online subscriptions. The Internet also provides an alternative to virtually all forms of retailing.

Intensity of Rivalry

The intensity of the rivalry between retailers in a particular sector depends on a number of general market-related factors, and factors related to the firms competing in the market. For instance, slow market growth, high concentration, maturity of markets, low differentiation, and high exit costs of leaving the market are likely to lead to intense competition between retailers. The relative balance between competing retailers and their competitive retail marketing strategies also influences the intensity of competition. For instance, competition is likely to be fiercer where there are a number of roughly similar-sized competitors pursuing a similar strategy.

Analysis of Competition Through the Mapping of Strategic Groups

A group of stores (competing in similar ways) with similar target markets and similar marketing strategies is referred to as a strategic group. The aim of strategic group concept is to simplify analysis of competitive strategies and make predictions about competitive behaviour within and between strategic groups. For example, because of the relative homogeneity of the groups, members within them are affected similarly by changes in the environment.

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The dimension(s) chosen to define strategic groups relate to the shoppers' choice of store, price of goods, merchandise assortment (range), location of store, and service. The actual variables chosen depend on the retail sector concerned. In the clothing sector for instance, quality, fashion orientation and selection could be used to identify strategic groups. These dimensions can then be used to map the competitors within the industry/ sectoral competitive space.

The intensity of competition between firms in different strategic groups depends on the 'distance' between the strategic groups in the competitive space. Competition between neighbouring groups will be most intense as there may be some overlap between their respective target markets. Conversely, competition is least intense between firms belonging to strategic groups furthest apart. Also, where a strategic group is placed between two other groups it will face competition from both.

Although the strategic groups are relatively stable due to mobility barriers that limit the degree of movement between groups, they are constantly evolving due to rivalry and the emergence of new types of retailing.

Competition is most intense within a strategic group because members pursue similar strategies on the relevant competitive variables such as target markets, merchandise assortment, pricing, and location. These similarities leave the consumers confused as they cannot distinguish between retailers and making decisions based on price. For example, in petrol retailing, consumers cannot distinguish between the quality of petrol offered by different retailers and will therefore tend to purchase petrol from the cheapest retailer. Hence, where petrol stations are located near to each other, prices tend to be the same to prevent loss of business to the neighbouring retailer. Also, when prices are changed by one retailer, there is a reaction from competing retailers.

In order to gain competitive advantage, therefore, retailers need to differentiate themselves from other members of the strategic group. The major methods of differentiation in retailing in addition to price are location, sales promotions, store atmospherics, merchandise assortment, and service. However once a store is built, the location of the store is fixed and can only be changed in the long term. As price is easily imitated and has direct impact on profitability, retailers are more likely to rely on merchandise assortment, promotions, store atmospherics and service to differentiate themselves from competitors. Nevertheless, discount retailers use price as their main differentiating feature.

Competitive Model

To get a good understanding of what is happening in the competitive environment, the retailer must check it from both the supply and demand sides of retail management. In retailing it is general practice to compare customers within a given market area, usually regional or local in nature. The exceptions to this rule are retailers involved in e-tailing or direct retailing. Thus, it is important to note the product preferences of customers in a local market. National trends are not always the norm for regional or local markets.

In addition to finding the product preferences of customers in a local market, the retail professional should understand the structure of the market in which the retailer does business. There can be four types of competitive situations:

1. Pure competition,
2. Monopoly
3. Monopolistic competition
4. Oligopoly

Check Your Progress

6. What kind of pressure do suppliers bring to competition?
7. How do substitute products affect competition?
8. Define strategic groups.
9. Differentiate between monopoly and monopolistic competition.

This is shown in Figure 6.3.

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	No. of Sellers	No. of Buyers	Differentiation
Pure competition	many	Not many	Absent/less
Monopoly	one	Many	No Substitute
Monopolistic	many	many	Present/ more
Oligopoly	few	many	Absent/less

Figure 6.3: Four Types of Competitive Situations

Perfect competition This is an economic model portraying an imaginary form of market wherein prices are not influenced by any producer or consumer, leading to an absolutely efficient result.

Monopoly (Greek mono-one, polien-to sell) implies a constant market situation in which a product or service is offered by a single provides. In a monopoly there is no economic competition for goods and services and no quality substitute goods.

Monopolistic competition is a common form of market. In such a market the members of both producers and consumers are many. There is a variety of goods and services because consumers are clear about what they want and the sellers' effort is to offer a product better and different from their competition.

Oligopoly Oligopoly is yet another market form. Here a small number of sellers or oligopolists hold away over a market or industry. The four-form concentration ratio is an apt description of oligopoly from the quantitatively. This ratio gives the market share of the four largest firms in an industry as a percentage. The market where this ratio is above 40% is considered as an oligoply.

Competition Regulation

In order to ensure that there is fair competition between competing retailers, and that consumers are not exploited because of their weak buying power, competition needs to be regulated. For instance, too close a relationship between retailers and suppliers can lead to anti-competitive practices. The practice of obtaining differential discounts (receiving goods at prices lower than competitor's) and exclusive supply arrangements (preventing suppliers from dealing with other retailers) can give a retailer a big advantage over existing competitors and can make it very difficult for new competitors to enter the market. Retailers can also improve their competitive advantage in the market by mergers or acquisitions of competing retailers.

In India, the Monopolies and Restrictive Trade Practices (MRTP) Act takes care of regulating the competition. The objectives of MRTP are (1) To prevent concentration of economic power to the common detriment and control of monopolies (2) To prohibit monopolistic trade practices, and (3) To prohibit restrictive trade practices and unfair trade practices. The MRTP Act is discussed in the unit, Legal and Ethical Issues.

6.5 SUMMARY

Armed with the classification of retail institutions and concepts of analysing competition, a retailer can develop a competitive analysis to gain an understanding of the environment in which it does business. Because retailing has reached a mature phase in its life cycle, one of the only ways to increase business is to take away the market share from competitors. While a retailer is trying to increase his market share, so are his competitors. The successful retailer has a thorough understanding of the retail environment. Information on the retail environment should be included in the situational analysis and become a part of

the retail strategy. Data for a complete competitive analysis can be accessed from the retailer's retail information system. Any data generated during the analysis should be placed in the RIS.

Competitive and industrial analysis is helpful in gaining insights into the competitive environment. In addition, the retail planner needs to know how, why and when the competition will respond to changes in retailer tactics and executions.

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6.6 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The current list includes Tatas (Infiniti Retail and Trent), Ambanis (Fresh and Fresh Plus), Goenkas (Spencer's), ITC (Chaupal Sagar), Biyanis (Pantaloon and Big Bazaar), Rahejas (Shoppers' Stop), Piramals (Pyramid) and not to forget old warriors like Bata, Raymond, Arvind and Titan and new entrants are Birlas (Aditya), Bharatis (Sunil Mittal), Essar (Ruias), and Ambanis (Anil). This is only the major player list; the list becomes mind-boggling if the local, medium and small companies are included (like Heritage, Subhiksha, Nilgiris, Vivek, Akbarally and so on. This list is of Indian players.
2. Herfindahl Hirschman Index.
3. Whilst measures of retail concentration and market shares are good indicators of the intensity of competition, data required for these measures are not always available. An alternative measure is the number of retail outlets of a particular type per thousand of population. The higher this ratio, the higher is the competitive intensity.
4. Intratype competition is direct competition between similar types of retail formats or trading styles.
5. Today discount stores that provide value are attracting large competition than the other formats. This is because of the high middle income population that seeks value for money.
6. The dominance of the majority of the retail sectors by large retailers has transformed the power relations between retailers and suppliers. In the past, big brand manufacturers could virtually dictate to retailers the shelf price, product range, shelving and promotion of products within stores. However, development of own brands and the increase in size of retailers (and the resulting concentration) has eroded the power of suppliers. An indication of the power of retailers is that large supermarkets can nowadays demand slotting allowances (or fees) from suppliers for stocking their merchandise in the stores.
7. All retailers are likely to face some form of intertype competition. For instance, the majority of newspaper sales are through magazine specialists and variety stores. However, newspapers are also sold through monthly offline and online subscriptions. The Internet also provides an alternative to virtually all forms of retailing.
8. A group of stores (competing in similar ways) with similar target markets and similar marketing strategies is referred to as a strategic group.
9. Monopoly (Greek language monos, one + polein, to sell) is defined as a persistent market situation where there is only one provider of a product or service. Monopolistic competition is a common market form. Monopolistically competitive markets have the following characteristics:
   - There are many producers and many consumers in a given market.
   - Consumers have clearly defined preferences and sellers attempt to differentiate their products from those of their competitors; the goods and services are heterogeneous.

6.7 EXERCISES AND QUESTIONS

NOTES

1. Write about the competitive environment and its measures?
2. What are the different types of competitions?
3. What are the different ways of analysing competition?
4. Describe the four types of competitive models?

6.8 FURTHER READING

1. Berman and Evans, *Retail Management*; Prentice Hall, 2004.
2. Varley Rosemary and Mohammed Rafiq, *Principles of Retail Management*; Palgrave MacMillan, 2005.
3. Levy and Weitz, *Retailing Management*; Irwin, 2004.
4. Dunne, Lusch and Gable, *Retailing*; South-Wester, 2002.
5. Davis and Ward, *Managing Retail Consumption*; John Wiley & Sons, 2002.

UNIT 7 RETAILING — INDIAN EXPERIENCE

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Structure

7.0 INTRODUCTION

Retailing is one of the largest private sector industries in the world. In India it still has to reach its potential; in fact, it has a long way to go. It is the largest employer in India, after agriculture. With 13 million outlets, India has the highest density of outlets. This unit will focus on the Indian retail experience.

7.1 UNIT OBJECTIVES

- Understanding the Indian retailing experience
- Understanding the role of FDI in India
- Discussing the advantages and disadvantages of FDI

7.2 RETAILING — INDIAN EXPERIENCE

Modern retailing has entered India in the form of sprawling malls and huge complexes that offer shopping, entertainment, and leisure to the consumer as the retailers experiment with a variety of formats, from discount stores to supermarkets to hypermarkets to specialty chains. However, *kiranas* continue to score over modern formats primarily due to the convenience factor.

The organized segment typically comprises a large number of retailers, greater enforcement of taxation mechanisms and better labour law monitoring systems. It's no longer about stocking and selling but about an efficient supply chain management, developing vendor relationship, quality customer service, efficient merchandising and timely promotional campaigns. The modern retail formats are encouraging the development of well-established and efficient supply chains in each segment ensuring efficient movement of goods from farms to kitchens, which will result in huge savings for the farmers as well as for the nation. The government also stands to gain through more efficient collection of tax revenues. Along with modern retail formats, the non-store retailing channels are also witnessing action with HLL initiating Sangam Direct, a direct-to-home service. Network marketing is growing quite fast and has a few large players today. Gas stations are seeing action in the form of convenience stores, ATMs, food courts and pharmacies appearing in many outlets.

In the coming years it can be said that the hypermarket route will emerge as the most preferred format for international retailers stepping into the country. At present, there are 50 hypermarkets operated by four to five large retailers spread across 67 cities catering to

a population of half-a-million or more. Estimates indicate that this sector will have the potential to absorb many more hypermarkets in the next four to five years.

Traditionally, the small store (*kirana*) retailing has been one of the easiest ways to generate self-employment, as it requires minimum investments in terms of land, labour and capital. These stores are not affected by modern retailing as they are still considered very convenient to shop. In order to keep pace with the modern formats, *kiranas* have now started providing more value-added services like stocking ready-to-cook vegetables and other fresh produce. They also provide services like credit, phone service, and home delivery.

Organized retailing has helped in promoting several niche categories such as packaged fruit juices, hair creams, fabric bleaches, shower gels, depilatory products and convenience and health foods, which are generally not found in the local *kirana* stores. Looking at the vast opportunity in this sector, big players like Reliance and K. Rahejas have announced their plans to become the country's largest modern retainers by establishing a chain of stores across all major cities.

Apart from metros, several towns like Nagpur, Nasik, Ahmedabad, Aurangabad, Sholapur, Kolhapur and Amravati are witnessing the expansion of modern retails. Small towns in Maharashtra are emerging as retail hubs for large chain stores like Pantaloon Retail because many towns like Nagpur have a student population, lower real estate costs, fewer power cuts and lower levels of attrition. However, retailers need to adjust their product mix for smaller cities, as they tend to be more conservative than the metros.

A host of traditional 'brick and mortar' companies such as Tatas have entered retail business. With demographic changes like rising disposable incomes and rapidly expanding middle class, the Indian retail sector is at an inflexion point where the growth in consumption and growth of organized retailing are increasing growth. Market liberalisation and an increasingly assertive consumer population have attracted bigger Indian and multinational operations to make investments, but are yet to achieve success or break even.

The Indian consumption pattern and preferences have undergone vast changes over the years allowing the foreign retailers to play with the psyche of the brand-conscious modern Indian, who has no qualms in spending a fortune on overhauling his wardrobe. This has led to the entry of up-market brands like Nautica and New Balance into the country to cash in on this opportunity.

India has the youngest population in the world, with a large population in the 20 and 34 age-group in the urban regions boosting the demand. All these factors have tempted foreign firms such as Wal-Mart, Tesco and Carrefour to enter India. India is now firmly placed on the US and UK radars as US retailers are gradually realising the potential of the retail and consumer goods sector. The timing is the most important source of competitive advantage for global and regional retailers in the globalization race. Knowing when to enter emerging retail markets is the key to success.

In the race for globalization, global and regional retailer can gain an edge over competition of their sense of timing of entering new retail markets is right. The report further stated that global retailers such as Wal-Mart, Carrefour, Tesco and Casino would take advantage of the more favourable FDI rules that are likely in India and enter the country through partnerships with local retailers. Other retailers such as Marks & Spencer and the Benetton Group, which operate through a franchisee model, would most likely switch to a hybrid ownership structure.

However, in order to achieve breakthrough growth global retailers might have to face some glitches in India. High taxes, poor infrastructure, bureaucratic hurdles and high cost of real estate are some of the challenges that overseas retailers have to tackle in the country.

The Census of India defines rural as any habitation where the population density is less than 400 per sq. km, and where at least 75 per cent of the male working population is engaged in agriculture and where there is no municipality or board. The number of villages thus

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adds up to 638,691. According to the NCAER study, there are almost twice as many 'lower middle income' households in rural areas as in urban areas. Retailers would do well to keep a pulse on the Indian rural market comprising 128 million households and a population nearly triple that of its urban counter part, forming a major demand base. The money power of this section has also grown, thanks to good monsoons and quarter agricultural output from 176 to 200 million tonnes in 1991. In fact, rural India now accounts for 40% of the country's middle class 58% of the total expendable income.

Farmers are enjoying an increasing marketable surplus of farm produce, in addition to an estimated induction of Rs 140 billion in the rural sector through the government's rural development schemes in the Seventh Plan and about Rs 300 billion in the Eighth Plan. This spurt in the purchasing capacity of farmers is also believed to have significantly contributed to the rapid growth in demand. The high incomes combined with low cost of living in the villages have meant more money to spend.

Retailing is the final phase of the distribution channel. It is clear that it is availability and distribution that drives growth in rural Indian markets. Hence, retailing will be significant and will undergo greater organization and maturity as is being witnessed in the urban markets, even in the rural markets. Innovative retail models, which take into account the nuances of rural markets, need to be implemented. Some Indian firms have made a beginning; the e-choupal initiative launched by ITC is one such example.

The structure of Indian retail is developing rapidly with shopping malls becoming increasingly common in large cities and another150 new shopping malls by 2008. However, the traditional formats like hawkers, grocers and tobacconist shops continue to co-exist with the modern formats of retailing. Modern retailing has helped the companies to increase the consumption of their products. For example, Indian consumers would normally consume the rice sold at the nearby *kiranas* viz. Kolam for daily use. With the introduction of organized retail, it has been noticed that the sale of Basmati rice has gone up four times since a few years ago; as superior quality rice (Basmati) is now available at almost the same price as the normal rice at a local *kirana*. Thus, the way a product is displayed and promoted influences its sales. If the consumption continues to grow this way it can be said that the local market would go through a metamorphoses and the local stores would soon become things of the past or restricted to last-minute unplanned buying.

Food and Grocery Retail

The food business in India is largely unorganized adding up to barely Rs. 40,000 crore, with other large players adding another 50 per cent to that. The all India food consumption is close to Rs. 900,000 crore, with the total urban consumption being around Rs. 330,000 crore. This means that aggregate revenues of large food players is currently only 5 per cent of the total Indian market, and around 15-20 per cent of total urban food consumption. Most food is sold in the local 'wet' market, vendors, roadside push cart sellers or tiny *kirana* stores. According to McKinsey report, the share of an Indian household's spending on food is one of the highest in the world, with 48 per cent of income being spent on food and beverages.

Apparel Retail

Readymades and western outfits are growing at 40-45 per cent annually, as the market teems with international brands and new entrants entering this segment creating an Rs. 500 crore market for the premium grooming segment. The past few years have seen the sector aligning itself with global trends with retailing companies like Shoppers' Stop and Crossroads entering the fray to entice the middle class. However, it is estimated that this segment would grow to Rs. 300 crore in the next three years.

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Gems and Jewellery Retail

The gems and jewellery market is the key emerging area, accounting for a high proportion of retail spending. India is the largest consumer of gold in the world with an estimated annual consumption of 1000 tonnes, considering actual imports and recycled gold. The market for jewellery is estimated as upwards of Rs. 65,000 crores.

Pharma Retail

Pharma retailing is estimated at about Rs. 30,000 crore, with 15 per cent of the 51 lakh retail stores in India being chemists. Principle Vikas Bali of A.I. Kearney (India) Ltd. is of the view that pharma retailing will become more organized and corporatised like other retailing formats such as food and apparel. Those who have already done so include Dr. Morepen (The already launched Lifespring and Imminent Tango), Medicine Shoppe, Apollo Pharmacies, CRS Health by SAK Industries, and so on

Music Retail

According to a survey conducted by Images-KSA study, the Indian music industry boasts a size of Rs. 1100 crore, 36 per cent of which goes to the piracy market. Organized music retailing makes up about 14 per cent on Rs. 150 crore.

Book Retail

The book industry is estimated at over Rs. 3,000 crore of which organized retail accounts for only 7 per cent (at Rs. 210 crore). This segment is seen to be emerging with text and curriculum books amounting to about 50 per cent of the total sales. With more and more people opting for books as gifts in India this sector is expected to grow by 15 per cent annually.

Consumer Durables Retail

In the consumer durables market we have consumer electronics, which includes TV sets, audio systems, VCD players, etc., and appliances, under which come washing machines, microwave ovens, air-conditioners, and so on. Currently this sector is approximately US $4.5 billion, organized retailing 5 per cent of it.

Reasons for Slow Growth of Organized Retail in India

Organized retail in India is a little over a decade old. It is largely an urban phenomenon and the pace of growth is still slow. Some of the reasons for this slow growth are:

- **Retail not being recognised as an industry in India**—Lack of recognition as an industry hampers the availability of finance to the existing and new players. This affects growth and expansion plans.
- **The high costs of real estate**—Real estate prices in some cities in India are among the highest in the world. The lease or rent of the property is one of the major areas of expenditure; high lease rentals eat into the profitability of a project.
- **High stamp duties**—In addition to the high cost of real estate, the sector also faces very high stamp duties on transfer of property, which varies from state to state (12.5 per cent in Gujarat and 8 per cent in Delhi). The presence of strong pro-tenancy laws makes it difficult to evict tenants. The problem is compounded by problems of clear titles to ownership, while at the same time land use conversion is time-consuming and complex as are the legal processes for settling of property disputes.

- **Lack of adequate infrastructure**—Poor roads and the lack of cold chain infrastructure hampers the development of food and fresh grocery retail in India. The existing supermarkets and food retailers have to invest a substantial amount of money and time in building a cold chain network.
- **Multiple and complex taxation system**—The sales tax rates vary from state to state. While organized players face a multiple point control and tax system, there is considerable sales tax evasion by small stores. In many locations, retailers face a multi point octroi. With the introduction of Value Added Tax (VAT) in 2005, certain anomalies in the existing sales tax system causing disruptions in the supply chain are likely to get corrected over a period of time.

In order for the market to grow in modern retail, it is necessary that steps are taken for rewriting laws, restructuring the tax regime, accessing and developing new skills and investing significantly in India.

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7.3 FDI IN RETAIL

A pan-India network of suppliers has been severely hindered by the inadequate infrastructure in the way of roads, electricity, cold chains and ports. Therefore, retail chains end up using a number of vendors to meet their needs, which in turn leads to higher costs and prices. The existing talent potential is many of backing the newly emerging retail sector while educated Indians prefer to make their careers in IT, BPO and financial services. Despite government's efforts to bring about a uniform value-added tax in all states, presently the tax rates differ from state to state, making it difficult for an effective distribution network to fall in place due to using costs and complexities.

An added restraint is the strict labour laws that define the member of working hours and minimum wages of part-time employers. And, if a company works to open new outlets, many clearances are required, a costly and time-consuming process.

Retailers also have a problem in getting finance from bank for their expansion plans because their sector has yet to enjoy 'industry' status. The foreign player presence is less, thank to government restrictions on FDI, and Indian retail players do not get sufficient exposure to best practices.

Non-availability of government land and zonal restrictions has made it difficult to find a good real estate in terms of location and size. Also lack of clear ownership titles and high stamp duty has resulted in disorganized nature of transactions.

The most common definition of FDI was originally provided by International Monetary Fund and was subsequently endorsed by the Organization for Economic & Cooperative Development. "Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy ("direct investor") in an entity resident in an economy other than that of the investor ("direct investment enterprise"). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated".

Foreign Direct Investment (FDI) is a method of allowing external finance into an economy. FDI also facilitates international trade and transfer of knowledge, skills and technology.

The entry of MNCs into a country is not only associated with the inflow of technical know-how and capital, but it may also pose a threat to the home industries. The units having collaboration with the multinationals may stand to gain, but others may have to face competition in the domestic market.

Check Your Progress

1. Why do *kiranas* still survive?
2. Why is efficient supply chain management important to India?
3. What are the various factors attracting FDI to India?
4. What is the percentage of total income spent on food?

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International players show a preference for the Indian retail industry even through this sector is largely unorganized. Even China falls below India because of the former's string of laws at different levels. More and more people are bound to realise India's potential as a business area, considering that our per capita retail space is one of the lowest. Other encouraging factors/trends are the burgeoning shopping malls, retail chains, multi-brand outlets, space, environment and convenience.

Further, with increasing per capita income, expenditure on consumption should remains stable, with emphasis on food and apparel. Customers can also be lured by traditional grocery stores improving on peculation of quality food products on the lines of north America and Europe.

Although we still guard our retail industry rather strongly from foreign direct investment, the government is showing signs of flexibility of coins, one must look at both sides of the coin; while FDI will generate employment in retail, it will also offer considerable competition to our small business. In the 1980s FDI investment was aimed transfer of technology and promotion of export, but today's capital input in the retail sector will open up issues relating to the size of investment, actual inflows and takeovers of domestic companies keeping a balanced view, we should expect FDI to bridge the gaps in resource and technology in retailing.

India is already a sourcing point for global retailers. However, politicians are skeptical that opening up of the retail sector to FDI will sound the death-knell for our small local players and domestic chains.

Global retailers have already been sourcing from India; the opening up of the retail sector to the FDI has been fraught with political challenges. With politicians arguing that the global retailers will put thousands of small local players and fledging domestic chains out of business.

The only opening in the retail sector so far has been to allow 51 per cent foreign stakes in single brand consumer stores, private labels, high tech items/ items requiring specialized after sales service, medical and diagnostic items and items sourced from Indian small sector (manufactured with technology provided by the foreign collaborations). Parties supporting the FDI suggest that the FDI in retail should be opened in a gradual/ phased manner, such that it can promote competition and contribute to the growth of the Indian economy. The impact of the FDI would benefit the consumer to a great extent and will generate employment as more and more entrepreneurs come forward to invest and taste the new generation in retail marketing. The opening of FDI should be designed in such a way that many sectors — including agriculture, food processing, manufacturing, packaging and logistics would reap benefits. The table below lists the pros and cons of allowing FDI into retail.

Thus, it can be said that this investment boom could change the face of Indian retail by offering quality goods at lower prices to the consumers. In addition to this, the presence of global retailers will enhance exports from India as they would also source Indian goods for their international outlets leading to a remarkable increase in Indian exports.

Developing countries, emerging economies and countries in transition increasingly see FDI as a source of economic development, modernisation and employment generation, and have liberalised their FDI regimes to attract investment.

Developing countries, emerging economies and countries in transition increasingly see foreign direct investment (FDI) as a source of economic development, modernisation and employment generation, and have liberalised their FDI regimes to attract investment.

In India, FDI in retail is not allowed. An international retailer can enter the Indian retail market through any of the following methods:

- Hi-tech items/items requiring specialised after sales service
- Social sector items

- Medical and diagnostic items
- Items sourced from the Indian small sector (manufactured with technology provided by the foreign collaborator) for 2-year test marketing (simultaneous commencement of investment in manufacturing facility required)

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Foreign owned Indian companies cannot own and run retail shops to sell other category of goods to consumers in India. A 100 per cent FDI is, though permitted on specific approval basis in case of trading companies in India, for carrying out:

- Export Trading;
- Bulk imports with sales either through custom bonded warehouses/high seas sales;
- Cash and carry wholesale trading; or
- Sales substantially to group companies.

There are certain conditions attached to permission for FDI up to 100 per cent for e-commerce activities. Interested companies if listed in other parts of the world, are required to divest 26 per cent of their equity in favour of the Indian public in 5 years. They may only carry out business-to-business (B2B) activities, not retail trading.

Franchising of operations appears to be the most popular strategy followed by the international retailers for entry into India. Under franchising, the parent company lends its name and technology to a local partner and gets royalty in return. In case a master franchisee is appointed at the national or regional level; the parent company gets the right to appoint local franchisees. Nike, Marks and Spencer, Pizza Hut and Mango are some of the best-known foreign players who have adopted this setup of operations.

The other route for entry is a joint venture, whereby the international partner provides equity and support to the Indian investor. The Indian partner provides all the local knowledge that is typically needed in such a venture. McDonalds and Reebok have adopted the joint venture route in India.

An international organization may also set up a manufacturing facility in India. Two key retailers who have adopted this strategy include Benetton and Bata. On the other hand, companies may also set up distribution offices in India and thereby trade in the country through local Indian retailers. Swarovski and Hugo Boss operate in India through distribution offices. Metro Cash and Carry has entered the country by way of wholesale trading.

Although a large organized retail sector offers many advantages, the end gain in the way of better products should be the consumer's. Those in favour of FDI argue that it will increase the amount of sale resulting in more manufacturing, jobs and prosperity. However, one has seen that farmers can demand a better price for their products only by bettering their value-added chain. What the organized retail sector can do is further the mass marketing of processed and packaged goods, and create more employment on account of its being labour intensive. Indirect employment would be a natural outcome of support activities from producers to packaging, storage, transport and other logistic services.

Those against opening up of the retail sector to FDI argue that the global players come with deep pockets. This is believed to be unfair as it does not provide a level playing field to the domestic retail industry. Many people are wary of FDI in retailing leading to unfair competition and closing down of domestic retailers like the small family managed outlets. Another apprehension is that India would become the dustbin for the sub-standard and outdated products of international retail chains. Fortunately, India is farthest from modern retailing formats filling it to the point of saturation.

The benefits from FDI do not accrue automatically and evenly across countries and sectors. In order to reap the maximum benefits from FDIs, there is a need to establish a transparent, broad and effective policy environment for investments and to put in place, an appropriate framework for their implementation.

Check Your Progress

5. How can you classify the goods in retail?
6. Is the Indian situation in retail better than in China?
7. List various ways in which FDI can be allowed?

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Advantages of FDI

1. Inflow of investment and funds
2. Improvement in the quality of employment
3. Generating employment
4. Increased local sourcing
5. Provide better value to end consumers
6. Investments and improvement in the supply chains and warehousing
7. Franchising opportunities for local entrepreneurs
8. Growth of infrastructure
9. Increased efficiency
10. Cost reduction
11. Implementation of IT in retail
12. Stimulate infant industries and other supporting industries

Disadvantages of FDI

1. Would give rise to cut-throat competition rather than promoting incremental business
2. Promoting cartels and creating monopoly
3. Increase in real estate prices
4. Marginalise domestic entrepreneurs
5. The financial strength of foreign players would displace the unorganized players
6. Absence of proper regulatory guidelines would induce unfair trade practices like Predatory pricing

The opening of the retail to the FDI is seen positively by Commerce and Industry minister Kamal Nath. According to the Government, FDI would encourage investment and create jobs. The idea of opening up more sectors to FDI is to attract more foreign capital by reducing the levels of control in most sectors of the economy.

The figures for FDI in India do not give the accurate picture because our methods of measuring FDI are not consonant with international standards. If we used more liberal methods, the net annual FDI inflow figures, as per RBI's official balance of payment statistics, would rise from $3.2 billion to $8.1 billion in 2000. In addition to bringing FDI statistics in parallel with global standards, India needs to create an investment climate conducive for greater FDI inputs from multinationals.

The government has an overall FDI inflow target of $10 billion in 2006-2007, the expectation on being $7.5 billion. Till October 2005-2006 this figure was $2.59 billion.

The chief aim of the new FDI policy is to generate more employment. India has plenty of scope for the same, being the prime offshore location for low and high-tech activities, having a low-cost English speaking and IT saving labour force, as well as tremendous market potential and underpin global executives. All these factors contributed to an improved perspective and investment confidence this year. Manufacturing investors view our country winter a positive method, positioning it among the top 6 most preferred location for investment. FDI has also been responsible for the growth of call centres, back office support and facilities for handling knowledge-intensive activities. However, FDI in India remains significantly lower than in China and Brazil. A small word of caution is that unless there are proper regulatory controls to prevent fraudulent transaction by foreign investors, India's great reservoir of talent and wealth creation might not reach its stage of optimisation.

The government is looking for the greenfield investment in FDI, *i.e.*, investment that would create employment and bring in technology and not just investment that would replace Indian capital.

7.4 SUMMARY

With growing integration of the Indian economy with global market and opening of 51 per cent FDI in single brand, the Indian economy appears to be on the progressive path. The 51 per cent FDI had been approved in basically multi product, single brands, and this would address the critical employment issues facing the country without displacing the mom and pop or *kirana* stores.

Today, fascination with India is translating into active consideration of India as a destination for FDI. The AT Kearney study has placed India as the best destination for retail FDI. The country was at the 15th position a few years back. By 2015, the retail market here is forecast to more than double to $637 billion, and organized retail is expected to increase its share from 3 per cent today to as much as 15 per cent. Single-brand retailers like Nike and Tommy Hilfiger are already taking advantage, and filling storefronts nationwide. Multi-brand foreign companies such as Wal-Mart and British grocer Tesco are reportedly looking at ways to get around the investment ban — either by opening wholesale stores that sell only to other businesses, which is legal, or by establishing partnerships with Indian companies.

7.5 ANSWERS TO 'CHECK YOUR PROGRESS'

1. *Kiranas* continue to score over modern formats primarily due to the convenience factor.
2. Efficient supply chains in each segment ensuring efficient movement of goods from farms to kitchens, will result in huge savings for the farmers as well as for the nation.
3. Though the market hasn't seen big time players of the developed nations yet, the fact that Indian per capita retail space is among the lowest, is expected to provoke people to look at retail as a potential business arena.
4. Indian household's spending on food is one of the highest in the world, with 48 per cent of income being spent on food and beverages.
5. Food and grocery, Apparel, Pharma, Music l, books and consumer durables.
6. India is favoured over China among the developing countries due to a slew of laws in the communist country at various levels.
7. In India, FDI in retail is not allowed. An international retailer can enter the Indian retail market through any of the following methods:
   - Hi-tech items/items requiring specialised after sales service
   - Social sector items
   - Medical and diagnostic items
   - Items sourced from the Indian small sector (manufactured with technology provided by the foreign collaborator) for 2-year test marketing (simultaneous commencement of investment in manufacturing facility required)

   Foreign owned Indian companies cannot own and run retail shops to sell other category of goods to consumers in India. A 100 per cent FDI is, though permitted on specific approval basis in case of trading companies in India, for carrying out:
   - Export Trading
   - Bulk imports with sales either through custom bonded warehouses/high seas sales

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- Cash and carry wholesale trading
- Sales substantially to group companies.

FDI up to 100 per cent is allowed for e-commerce activities subject to the condition that such companies would divest 26 per cent of their equity in favour of the Indian public in 5 years, if these companies are listed in other parts of the world. Further, these companies can engage only in business-to-business (B2B) e-commerce and not in retail trading, inter alia, implying that existing restrictions on FDI in domestic trading would be applicable to e-commerce as well.

7.6 EXERCISES AND QUESTIONS

1. Write about the Indian retail experience.
2. Define FDI and explain why it is important to India.
3. What are the challenges faced by the retail sector today?
4. List the advantages and disadvantages of FDI.

7.7 FURTHER READING

1. Berman and Evans, *Retail Management*; Prentice Hall, 2004.
2. Varley Rosemary and Mohammed Rafiq, *Principles of Retail Management*; Palgrave MacMillan, 2005.
3. Levy and Weitz, *Retailing Management*; Irwin, 2004.
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UNIT 8 RETAIL ORGANIZATION AND FORMATS

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Structure

8.0 INTRODUCTION

Retailing comes in different shapes and forms. Not all of retailing is the same; this unit takes a look at the evolution and types of retail formats. Retail outlets can be quite different in terms of the ownership of the retail business itself, the characteristics of the premises used and the orientation of the product range. Some types of retailing have been with us for over a century, while the new kinds of retail outlets emerge and develop, offering the consumer a wide variety of choices. Many large retail organizations have branched off into alternative approaches to ownership, format and product orientation as part of their growth and development, and so an understanding of the scope of each of these facets of the retailer is a starting point for becoming familiar with the retail industry as a whole.

8.1 UNIT OBJECTIVES

- Understanding the classification of retail ownership
- Understanding the wide variation of retail organizations in terms of product orientation and format
- Understanding the theories of retail development
- Discussing the store, non-store, generalist, specialist and service retailing

8.2 RETAIL OWNERSHIP

One way of making a distinction between different types of retailers is by looking at the organizations that can be placed into one of four categories, the independent retailer, the multiple retailer, the cooperatives, and the franchise.

1. **The independent retailer:** An independent retailer operates only one retail establishment. The majority of stores are owner or family managed. Many independent retailers are sole traders, or family-run businesses operating out of a single site. The store may offer a specialized product or a wide variety of products. *Kirana* shops are good examples of such retailer. Their catchment area is invariably the residential

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colony in which they are located. The ease of entry into this type of retailing makes the independent retail store attractive to those with few capital resources. Independent retailers have the advantage of being able to respond quickly to their customer's needs and wants. Due to the smaller size and location, independent retailers have greater opportunities than other types of retailers to build customer relationships. A downside of being an independent retailer is the inability to capitalize on economies of scale; therefore the independent retailer's prices usually are higher than those of larger corporate chain stores. Another disadvantage is a lower level of expertise among personnel. They have fewer resources for hiring and training qualified professionals in each of the retail area (merchandising, accounting etc). The advantages and disadvantages are summarised below

Advantages:

- Flexibility in formats, location and strategy
- Proximity of management to the consumer, giving a better understanding of customer
- Low resources required giving low exposure to risk
- High chances of having good rapport with customers

Disadvantages:

- Lack of economies of scale
- Limited growth prospects
- High dependence on the owner
- Limited long-term planning
- Less negotiating power with suppliers

2. **Multiple retailer or chain stores:** The term refers to retail organizations that have a central operational headquarters and a collection of branch stores under common ownership. Most of the retail chain stores are corporate/company owned and controlled. The term most should not be confused with all because some of the retail chains are family owned businesses. The function of defining and implementing a strategy is centralised. Most of the chains have a well-defined management philosophy and overall strategies with similar formats, uniform image and identity, and methods of operations in all their stores.

   The biggest advantage of operating a chain store is the ability to reduce costs through economies of scale. By purchasing in large quantities, the big chains can buy at reduced costs, thereby gaining the ability to pass on the lower costs to their customers. The large volumes also allow these retailers to negotiate with suppliers for a lower product cost. Due to their size, chains have the advantage of using information technology more efficiently than smaller retailers. Many large chains, such as future group, RPG can monitor instantly what is currently selling and what remains in inventory. Technology allows chains to link directly with suppliers and have merchandise shipped when it falls below a given level. Retail chains can hire and train the best and brightest minds in retail business and have specialists for each functional area within the business. Chain store operations also have some disadvantages. The biggest drawback is the cost associated with running a large operation. As the chain's size increases, so do its financial commitments. Furthermore, big chains take time in responding to environmental changes due to bureaucracy. Another disadvantage is the difficulty in tailoring the product assortment to different geographic areas. To take advantage of economies of scale, chains often purchase the same products for all their stores. The advantages and disadvantages are summarised follows:

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Advantages:

- Economies of scale
- Bargaining power
- Efficiency and cost-effectiveness through technology
- Organized and systematic – has a management philosophy and policy
- Long-range planning

Disadvantages:

- Low flexibility
- High investment costs and risk
- Limited independence among personnel
- Slow response or change to environmental demands
- Low customization

3. **Cooperatives** (also called voluntary groups)

There are three major types of cooperatives. They are retail sponsored cooperatives, wholesale sponsored cooperatives and consumer cooperatives.

(*a*) *Retail sponsored cooperatives*: It is an association formed by the independent retailers. To overcome the disadvantages associated with being a smaller, independent retailer, some retailers' band together to create a retail-sponsored cooperative, an organization that allows centralized buying and overcomes other problems involved in running a small retail operation. Through centralized buying, member retailers can take advantage of the price savings that accompany large purchases from vendors. In addition, retailers can improve their operating efficiency by sharing methods developed by cooperative organization. The silk sari cooperative is one of the examples for buying the raw material required for silk sari weaving through a centralized system.

(*b*) *Wholesale sponsored cooperative*: It is developed, owned and run by a group of wholesalers. The wholesaler groups generally offer integrated retail programmes to smaller, independent retailers. The wholesaler may offer the independents, services such as warehousing and transportation. In addition, members receive additional services such as site selection, [illegible] displays, and other merchandising methods. An example of a wholesale sponsored cooperative is Blooming Praire, which has been distributing natural foods throughout the Midwest since 1974.

(*c*) *Consumer cooperative*: It is a retail establishment owned and operated by a group of consumers. A consumer cooperative may arise largely because of dissatisfied consumers whose needs are not fulfilled by the existing retailers. A cooperative is managed on the basis that the customers of a business are also the owners of the business. Each customer is entitled to become a member of the cooperative society, thereby receiving the benefits of success via a dividend payout.

4. **Franchise system:** A franchise is a contract of agreement drawn up between a franchisor and franchisee, under which the franchisee can operate retail establishment using the franchisor's name and operating methods. The franchisee in turn owns the retail establishment, invests capital and pays a fee for using the franchisor's name and methods of operation. Where a franchisor is a business that grants the franchisee the privilege to use the franchisor's name and operating practices and a franchisee is the owner of the retail establishment investing capital and paying fee for the use of the franchisor's name and operating methods.

According to the International Franchise Association, a franchise is defined as 'a continuing relationship in which the franchisor provides a licensed privilege to do business, plus assistance in organizing, training, merchandising and management in return for a consideration from the franchise'.

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The best example of a franchise system is Pizza Corner. Pizza Corner is an Indian chain of pizzerias founded in 1996 by entrepreneur Fred Mouawad of Global Franchise Architects. It is headquartered in Chennai, India. In case of Pizza Corner, Global Franchise Architects is the franchisor and anybody who can invest Rs 35 to 70 lakh with a land area of 700 to 2,500 sq.ft. can become a franchisee. Pizza Corner helps in market study, feasibility study, training, R&D and so on.

The franchising system was started in 1851 by Singer sewing machine company in the United States but became popular only after World War II. The next successful franchisor is General Motors, which was undercapitalized and used the franchising system to fuel its business growth.

A franchiser is able to grow quickly, creating national or international presence at nominal cost. He gets the help of people who have acute knowledge of the local market. In addition to the widespread store brand exposure, the franchiser gets to increase his capital through the franchise fee route. The advantages for the franchisees are many. They get to become entrepreneurs and owners of their business very quickly, choosing their preferred, tried and tested successful brands.

On the flip side, the franchisor suffers the risk of revealing successful business formula, which would only create potential competitors. There is a greater chance of non-compliance and non-conformance by the franchisee with the uniform standards and practices of the franchising business. There are different types of franchise systems:

(*a*) **Product Franchise Business Opportunity:** Manufactures exercises control over a retailer's distribution of their products through the product franchise. Granting the franchisee the authority to distribute their goods, use their name and trademark, manufacturers in turn demand that the stone owner pay a fee or purchase minimum stock, as in the case of tyre stores. A trademark franchise is similar to a product franchise business but the nature of terms and conditions is different.

(*b*) **Manufacturing Franchise Opportunity:** These are franchises that allow an organization to manufacture and sell a product under the franchisor's name and trademark. This is common practice in the food and beverage industry. For instance, many bottlers of soft drinks acquiring a franchise from a company have to use its ingredients to make, bottle and distribute the soft drinks.

(*c*) **Business Franchise Opportunity Ventures:** Here the requirement is that a business owner buy and sell the products for a particular company, which in turn must provide customers or accounts and pay a fee, as, for instance, in vending machine routes and distributors ships.

(*d*) **Business Format Franchise Opportunity:** In this, most sought-after approach, a company gives a business owner a time-tested method to operate under the company's name and trademark, as well as initial help in managing it. In return, the business owner pays a fee and buys some supplies from the company.

Though we see the above four ownership formats most of the times, a fifth format also exists which is called leased department or a shop in shop. It is defined as a department in a large retail store in which space is leased or rented to an outside vendor that in turn operates under the larger retailer store's policies. Companies selling products like jewellery, perfume, watches, and music often open a leased departmental store.

8.3 RETAIL FORMATS AND EVOLUTION

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The retail format is the stone entity on package presented to the shopper. We may define a format as a retail mix that retailers use. Store formats are made according to the shop where the vendor and customer or buyer actually interact and are a result of the variety, price and experience of the retailer. We need to classify retail formats so that firms understand and execute their plans in a better manner, be it choosing are organizational mission, alternative ownership, specifying the category of goods or defining goals. An institution can fall in more than one category; for instance, a department stone unit may be part of a chain, have a stone-based plan, take mail-order sales, have a website, all at the same time. Such classification may differ from country-to-country.

Retail in India can be classified into three distinct format groups, according to their newness. The first is the classical format which includes *Haats, Melas* and *Mandis*. The second are the ones that have been established for many years which include *kirana* shops, *pan-beedi* shops, fair price shops, co-operative stores, departmental stores and mutli-brand outlets/ company show rooms. The third category includes the new and emerging formats of retailing which include exclusive retail outlets, hypermarkets, and multiplexes.

Though *Haats, Melas* and *Mandis* exist even today but they are not as prominent as the other formats like *mom and pop* stores.

Haats: They are periodic markets that form a major part of the rural market system in India. This is a location which witnesses a public gathering of buyers and sellers at fixed times and at fixed locations. The typical number of sales outlets is around 350, with average number of visitors crossing 4,500, covering 35 villages on an average. The average sale per day is Rs 2.25 lakh, Rs 900 per outlet on an average.

Melas: *Melas* are fairs and they can range from commodity fairs to religious fairs. Virtually every state in India has *melas* for which it is known; it is estimated that more than 25,000 *melas* are held annually in the country. It is also estimated that the average outlet in every *mela* would be more than 800 and the average sale per *mela* would be Rs. 143 lakh.

Mandis: Mandis are markets set up by the state government for the sale of agricultural produce directly from the farmers. Clos[illegible] 900 *mandis* exist in India and are believed to cater to a population of 1.36 lakh.

Before proceeding towards the store and non-store based formats, let us study various theories of retail development. Earlier researchers examined retail evolution on the premise that a common thread ran though it. The three significant theories proposed as significant in retail evolution are: (*a*) Cyclical Theory, (*b*) Conflict Theory and (*c*) Environment Theory. The three theories can be briefly explained as follows:

(*a*) *Cyclical theory*: The changes follow a pattern and phases can have definite identifiable attributes associated with them.

(*b*) *Conflict theory*: The competition or conflict between two opposite types of retailers, leads to a new format being developed.

(*c*) *Environmental theory*: The change in retail is attributed to the change in the environment in which the retail operates.

A detailed discussion of the theories is given below:

(*a*) **Cyclical Theory:** All Cyclical theories believe that retail institution follow a rhythmical cycle, such as low-high-low cycle or general specific-general cycle by regulating features like price or assortment. Two famous cyclical theories are the Wheel of Retailing and the Retail Accordion theory. In the former the retail evolution is the result of price whereas in the latter it is product assortment.

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Wheel of retailing: In 1958, McNair a pioneer in retail evolution theory, proposed the Wheel of Retailing Theory on the basis of his observation in European and 45 retail operations. According to him, there are 3 phases in evolution-entry phase, trade-up phase and vulnerable phase. The model of this theory is a large wheel having 3 spokes that divide it into 3 phases. In the first or entry phase, there are novel retail institutions that initially after low-priced products and few services and accept low margins in order to increase market penetration: Observing their success, other competitive institutions follow their example. The end of the entry phase sees a rise in the number of similar retail institutions. Gradually, these retail institutions turn into traditional ones, offering more services at higher prices. You might have observed how the conventional institutions have rest rooms, carts, food courts and attractive provisions of credit to draw more customers from the middle and upper income consumers, at the same time increasing this margins and prices.

Such practices continue into the second or trade-up phase. At the high-point of this phase, retail institutions have grater sales, volume, profit and market share on account of their improved store retail mix. In the course of time the wheel moves into the third or vulnerable phase. How the firm are mature, with a good cash flow and rising profits. However, there is simultaneous hike in operation costs, product prices and lesser profit margins because of higher levels of operational methods. While some mature retailers emphasize product quality and services, others compromise on the same to reduce operation costs and product prices for the sale of survival. This in turn makes them vulnerable or easily replaceable by other retailers. Thus in the vulnerable phase there is loss of market share and profitability, all of which save the way for a novel retailer in the next cycle of the wheel of Retailing.

Despite its explicit description of the three phases, the theory has its limitations, the most common being that every retail institution does not begin inter low margins and prices. Convenience stores, vending machines, boutiques and such have a high margin basis right from the start. Further, this theory takes into account only margins and prices, and not other affecting variables like environmental changes and competition. Finally, the theory is applicable only to the US markets, no others.

Retail Accordion Theory: Hollander (1966) proposed the Retail Accordion theory, which explained retail evolution as a cyclical trend in terms of the number of merchandise categories (*i.e.*, product assortment). In this theory, at the beginning of operation, a retail institution carries a broad assortment of merchandise (*i.e.*, various types of products or product classifications) but does not carry a deep assortment (*i.e.*, various styles within one product classification).

Beginning as a general store, the retail institution gradually becomes a specially stone, dealing with a specific line of merchandise but offering considerable variety. Yet, at one stage all retail institutions multiply their lines of merchandise as well as assortment. Thus there is modification in the number of lines (broad vs. narrow) and the depth of inventory (shallow vs. deep) over a period of time. As samples for analysis of this theory, Hollander use general stores, medicine stores, supermarkets, department stores and discount stores in the US. According to him, each retail institution type evolved by adhering to the step of the Retail Accordion Theory.

(b) **Conflict Theory:** An existing retail institution (*i.e.*, thesis1) challenged by its competitor (*i.e.*, anti-thesis) because it has competitive advantage over the existing retail institution (*i.e.*, thesis1). As time passes, the first retail institution imitates the characteristics of competitor to upgrade its existing characteristics and finally creates a new retail institution (*i.e.*, synthesis).

In the course of time, the first retail institution follows in the footsteps of its competitor to improve its existing features and ultimately create a new retail institution (synthesis). Another explanation is that in the case of 2 conflicting retail institutions, a new retail

institution (synthesis) comes into being, with better features than the other. This in turn becomes a traditional retail institution (thesis) in the next evolution.

(c) **Environmental Theory:** This theory enjoys the support of most researchers, who believe that the main influence on retail changes is the retail environmental. In order to survive change and competition, retail institutions must evolve by modifying to such changes, otherwise they will cease to exist. The Environmental theory is an off-short of Darwin's natural selection theory, which states that the survival of species depends on its adaptation to changes in the environment. While the Environment theory explains how retail evolution is influenced by changes in the environment, it has no explanation for patterns of changes over a long period of time. The various variables are technology, economy, demography, legal and a retail format has to adapt to the changes in these variables.

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8.4 STORE-BASED FORMATS

Store-based formats include all those retailers whose retail establishment is a physical bricks and mortar building in which the products are stored and displayed for the customer to walk into the store and be able to purchase the product over the counter. The various store based formats are discussed below:

- **Departmental Store:** Departmental stores are the oldest form of large stores. The format emerged in the early 19th century as a way of offering a collection of personal and home furnishing goods under one roof. Characteristic features of a departmental store are a vast variety and considerable assortments, customer service (self service is less than 50 per cent) and separate departments for display of goods. Though almost 70 per cent of the items can be grouped into the categories of food, clothing and home-related items, there can be 30 per cent of items that do not belong to the above category. Characteristically, a departmental store will house a general line of apparel in the way of suits, coats, dresses, furnishings; home furnishing comprising furniture, floor covering, curtain, linen; and ware for the house, such as dishes and utensils. Here you would find clothes for both mere and women, hardware, toiletries, photographic equipment, toys and sports items. The number of people employed should be around 50. While departmental stores have been around in India for a long time, this format of retailing has seen a fair amount of action over the past few years. The size of an average Indian departmental store varies from 20,000 to 40,000 sq.ft. and stocks between 50,000 to 1,00,000 SKU's. Some of the national players are Shoppers' Stop, Globus, Westside and Lifestyle.
- **Specialty Stores:** These have specific complementary merchandise categories and offer quality service. They are usually housed in an area of 8000 sq. ft. if they are global players, and between 2000 to 5000 sq. ft. for Indian retailers, some of whom are cross words book store, Titan showroom for watches, Tanishq for jewellery.

  Specialist retailers are not restricted to the selling of products; many speciality outlets offer service products to consumers. Examples include fast-food outlets, cafes, banks, dry cleaners, personal health care, beautician, etc.
- **Discount Stores:** A discount store is a retailer that offers a broad variety of merchandise, limited service and low prices. Discount stores offer both private labels and national brands. Full line discount stores can also fall under departmental stores. The difference between a departmental store and a full line discount store lies in price, services and merchandise areas. Discount stores generally offer limited customer service but have merchandise priced below that of departmental stores. In addition, the products sold at some discount stores tend to be less fashionable than similar merchandise carried at large departmental stores.

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- **Category Killers:** In a category killer on category specialist, which is discount store, you would find limited variety but many combinations of goods, offered at low prices, thereby 'Killing' a category of goods for other retailers. Examples are private computer hardware retailers who sell at wholesale rates.
- **Off Price Retailers:** These resemble discount retailers in that they sell brand name merchandise at every day low price. Off price retailers rarely offer many services to customers. To be able to offer lower prices, off price retailer develop special relationships with their suppliers for large quantities of merchandise. Inventory turnover is the key to a successful off price retailing business. Because of this the buying strategy developed and executed by off price retailers is very aggressive.

Off price retailers offer an inconsistent assortment of brand name, fashion-oriented soft goods at low prices. Off price retailers can sell brand names and even designer label merchandise at low prices due to their unique buying and merchandise practices. Most merchandise is bought opportunistically from manufacturers or other retailers with excess inventory at the end of the season. This merchandise might be in odd sizes or unpopular colours and styles, or it may be irregulars (having minor defects). Typically, merchandise is purchased at one-fifth to one-fourth of the original wholesale price. Off-price retailers can buy at low prices because they don't ask suppliers for advertising allowances, return privileges, markdown adjustments, or delayed payments. Due to this pattern of opportunistic buying, customers cannot be confident that the same type of merchandise will be in stock each time they visit the store. Different bargains will be available on each visit. To improve their offering's consistency, some off-price retailers' complement opportunistically-bought merchandise purchased at regular wholesale prices. There are three special types of off-price retailers:

(*a*) **Closeout Retailers:** These are off-price retailers who offer a large but varying assortment of general goods along with clothes and soft home items. The discount is due to different reasons like the product is discontinued or the product has high levels of inventory and could not be sold by the year end.

(*b*) **Outlet Stores:** These are off-price retailers owned by manufacturers or by department or specialty store chains. Also called factory outlets, outlet stores are owned by manufacturers who wish to cash in on the advantage from irregulars, surplus production, and goods returned by retailers. Outlet stores also allow manufacturers some control where their branded merchandise is sold at discount prices. In India, Alain Paine, Newport and other jeans manufacturers have factory outlets (mostly related to clothing).

(*c*) **Flea Market:** A retail format which is mostly unorganized and consists of foot path vendors is a format in which many vendors sell used as well as new and distressed merchandise.

- *Charity shops:* Charity shops are usually run on the basis of selling stock that has been donated; sometimes it can also have a range of specifically sourced products.
- *Catalogue Shops:* These are store based outlets, with very little product display in the outlet. The product displayed in the outlet is very little when compared to the range as a whole, but catalogues are available for customers to browse through if they wish to. Having specified the product and made a payment, the customer waits for a short time while the product is retrieved from a stock room attached to the showroom or store front. Most of the automobile showrooms operate in this style.
- *Warehouse Clubs and Stores:* These formats were developed to satisfy customers who wanted low prices every day and were willing to give up service needs. These retailers offer a limited assortment of goods and services, both food and general merchandise, to both end users and small to midsize businesses. The

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stores are very large and are located in the lower rent areas of cities to keep their overhead costs low. Typically, warehouse clubs and stores charge their customers an annual membership fee. Warehouse clubs may require that customers be affiliated with a government or business entity. Many warehouse clubs do not carry perishable items, or carry a limited amount, because of the costs associated with storing them. Among the large warehouse stores are Costco-wholesale, Sam's club, etc.

Warehouse clubs ranging from 1,04,000 sq.ft. to 1,70,000 sq.ft. offer a variety of goods in bulk at wholesale prices but provide a limited number of product items. Most warehouse clubs operate in a similar way to cash and carry outlets in that the goods have to be purchased in large quantities, but some like Costco allow customers to purchase smaller quantities of some lines.

Convenience Store: As the name suggests, convenience stores are located in areas that are easily accessible to customers. Convenience stores carry a limited assortment of products and are housed in small facilities. Owners of convenience stores locate neighbourhoods and try to intercept consumers between their homes and places of employment. The strategy convenience stores employ is one of fast shopping: consumers can go into a convenience store, pick out what they want or need, and check out in a relatively short time. They don't have to search for the products they want and they don't have to wait a long time in line to pay. Due to high sales, convenience stores receive products almost daily. The pricing is moderate to high. The store size ranges from 500 to 8000 sq.ft. The *kirana* stores are the best examples of convenience stores. Another example can be the petrol station where you can buy snacks, cold drinks, newspapers and so on.

Supermarket, Super Store and Hypermarket: Supermarkets, a store concept imported from the US in the middle of the 20th century, have been a highly successful retail format. The real advantage that the supermarket offered the customer was one of self service and therefore a much faster method of shopping. Instead of requesting products over a counter, the supermarket allowed the customer to get involved with the product prior to purchase. The ability to peruse the product offering, try new products and impulse purchase, appealed to the new generation of customers. Supermarket is a store with a selling area of between 800 to 5,000 sq.ft., selling at least 70 per cent foodstuffs and everyday commodities. Internationally the size of these stores varies from 8,000 to 20,000 sq.ft. While there is no standardization on the parameters of what makes a supermarket in India, it is one of the fastest growing business formats in the country. Examples of supermarkets in the Indian market scenario are Nilgiri's, Food World, Subhiksha, and Food Bazaar.

Supermarket, superstores and hypermarkets can be considered in the same family or retail format, in that the stores are self service, usually one level and laid out in a functional grid pattern of aisles and shelving. The superstores are larger conventional super markets (20,000 to 50,000 sq.ft.), with expanded bakery and non-food sections such as general merchandise, and health and beauty care items; while a combination store is a superstore and full line pharmacy with general merchandise, health and beauty care products accounting for at least 15 per cent of the sales.

Hypermarket is the format that pioneered the world's second largest retailer 'Carrefour'. A hypermarket is a huge retail outlet ranging 50,000-3,00,000 sq.ft. offering an extensive range of products with the proportion of 60 to 70 per cent food items and 30 to 40 per cent non-food items. These formats are more popular in the European countries.

8.5 NON-STORE BASED FORMATS

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A non-store based format can be defined as the one that does not use a store to sell goods, where a store is defined as a building with goods stored and displayed for the customer to walk in and make a purchase. These formats are also referred to as 'click and mortar' formats, in contrast to the brick and mortar store formats. Examples include mail order, direct selling, personal retailing, vending, and telesales.

- **Mail order:** Mail order retailers rely on printed media as the basis for their format. Catalogues are sent to consumers who order from the catalogue either by telephone, by post or online. In agency mail order, the consumer is offered the chance to order on behalf of friends and family, and to obtain a commission on those sales, but increasingly catalogues are issued directly to consumer. Retailing through the catalogue is referred to as catalogue retailing. In case of direct mail, a brochure or a pamphlet of a specific product is mailed directly to the consumer.
- **Direct selling:** It is the term used to describe one-to-one proactive offers from producers to consumers and may take the form of direct mailing, telesales and personal retailing. It would also include any approach made through Internet. Sometimes direct selling is used to denote the sales interaction that involves personal contact via telephone, at the customer's home or outside location like office, restaurant, etc.
- **Personal retailing:** Personal approaches are perhaps the oldest form of retailing grounded in the activity of peddlers who travel from house to house with their wares. Door-to-door selling is less nowadays.
- **Vending:** The oldest form of technology-based retailing is vending. Vending machines first appeared in the US in the 1880s selling gum to the New York city travellers.

  Vending machine retailing is a non-store format in which merchandise or services are stored in a machine and dispensed to customers when they deposit cash or use a credit card. This is the most impersonal form of retailing. It is used to sell products like soft drinks, candy, cigarettes and newspapers. In case of India, tea and coffee vending machines are popular only next to automated teller machines. Vending machines are placed at convenient high traffic locations.
- **Tele sales:** Another well-established method of retailing that is based on the application of technology is tele sales, where product offerings are made by a personal telephone calls from a seller to a consumer. Regarded by many as intrusive, tele sales has a serious disadvantage of not being able to provide any product representation and therefore it's usefulness in many product categories is limited. However, the telephone is a common method of consumer response to non-store retail offering and so with call centers laying an increasingly major part in many retail transactions, the telephone is an important part of both inward and out-bound communications between customers and retailers.
- **TV shopping:** The earliest form of shopping via the television was by means of information provider networks such as Ceefax. This method of retailing suffers from the same product-presentation drawback as tele sales, but has been useful for services retailing (travel, entertainment, and insurance) when the product is intangible, information-based and the price offer is variable. More recent TV shopping developments have used the three-dimensional visual representation abilities of a screen image to provide dynamism to print-based retail offerings, first in the form of videos, and soon after in the form of a shopping channel, QVC, which was launched in 1983. One of the difficulties of programmed retail offerings is the need to provide the consumer with the opportunity to skip through unwanted product categories, and so interactive screen-based retailing is the most likely retailing format to offer the potential

Check Your Progress

1. Can a mom and pop store be classified as an independent retailer? Give reasons.
2. What are the different ownership patterns in case of retailing?
3. Which is better in your view, an independent retail or chain retail? Why?
4. Write down the advantages and disadvantages of an independent and chain store.
5. What are the different types of cooperatives?

customer everything that is necessary to emulate the 'usual shopping experience'. The conversion to digital TV and Broadband internet services will facilitate the adoption of interactive TV shopping.

- **Internet retailing:** Internet retailing is also referred to as electronic retailing e-commerce or e-tailing. In this retail classification, the retailer and customers communicate with each other in a typically non personal way via some type of electronic, interactive system, generally, a computer facilitated by Internet. The greatest advantage of e-tailing is speed at which retailer can make sales, process them and follow through on delivery. The main disadvantage of e-tailing is consumer perception of lack of privacy and security.

As a sophisticated and interactive medium, the Internet accessed by personal computer is showing every sign of being accepted as a mainstream shopping mode by an increasingly computer-literate society. Using the Internet to access information has been accepted as part of everyday life by many sectors of society, and has become very useful to customers as a means to get information about retailers' product and service offerings in a fast and convenient manner. As a way of accessing specialist retailers that might be geographically remote from consumers, the Internet provides a channel of discovery for the consumer, and a way of providing home shopping services for a wider target market for the retailer. The Internet is also an efficient home-shopping device, enabling those who have no time or less mobile consumers to order and take delivery of routinely purchased items such as basic groceries and household items. Irrespective of the way we access the e-retailer, whether it is via the PC, the mobile phone or the hand-held personal organizer, consumers increasingly expect retail organizations to offer flexibility in terms of information gathering (to supplement pre-sale shopping), purchase transaction, and taking delivery of the product or service (post-sales activity). By using a number of different retail formats, retail business is better able to allow consumers this flexibility. Most large retailers in the UK now fall into the category of the 'multi-channel' retailer, which is a term used to describe the strategy of using more than one 'route' to consumer markets. Typically, the multi-channel retailer runs stores and has a transactional website (the so-called 'clicks-and-mortar', or 'clicks-and-bricks' approach), but other combinations might be stores/catalogue, stores/catalogue/website, stores/website/ direct mail. Offering alternative ways to shop may encourage customers to remain loyal to a favoured retail brand as lifestyles change, but it can also present retailers with new operational and competitive challenges.

8.6 GENERALIST AND SPECIALIST RETAILER

Another way in which a retailer might be viewed, whether they use stores or any other format, is according to their degree of specialization, Many retailers, such as supermarkets, could be considered as generalists who supply a relatively wide range of products to satisfy a large number of consumer requirements. Other retailers, however, offer products that satisfy a particular or narrowly defined consumer need, and could therefore be considered to be specialist retailers.

Specialist retailers, whether they are clothing specialists such as Siyarams or a computer games specialist such as Game Drome, only offer the consumer a limited number of product categories. However, the depth of product variation within those categories is great. A generalist retailer offers a large number of categories of merchandise, but little product variation or brand choice within each product type. A neighbourhood supermarket, for example, will have a product range which is wide enough to satisfy the majority of basic consumer needs, but does not have the space to offer the brand and product variation in terms of flavour, colour and size that a superstore can. Super-stores, like department stores, offer both depth and width in their product range and

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so cannot be easily classified as generalists or specialists. A small number of retailers successfully trade with a narrow and shallow product assortment; travel kiosks illustrate this type of approach.

The largest sector is the mixed retail (non-specialist) sector into which many of the largest retail organizations fall. This is because many of the more successful retail players have reached their dominant position by extending their product ranges into more and more categories. All of the following retailers are classified as non-specialist, and therefore could be seen to be taking a generalist approach to their product offerings: Big Bazaar, Spencers, Fabmall, Trinetra, and Trent.

A difficulty with the generalist/specialist approach to retail classification is that some retailers specialize in part of their product range, but adopt a generalist approach to others. Boots, for example, specializes in pharmacy, health-care and beauty products, but adopts a more generalist approach in household goods and stationery. Petrol forecourt retailers specialize in products for the motor vehicle, complemented by a range of general groceries.

Non-store retailers can also take a generalist or a specialist approach. For example, the GUS catalogue would be considered a generalist retailer, given the number of product categories covered, but Waggers would be considered as a specialist retail business because it offers a limited number of product categories to a specific customer group in a small catalogue format.

8.7 SERVICES RETAILING

Until now all the formats we have seen are the retail formats for products. Whenever the term Stock Keeping Unit or SKU is used, we are talking about a product. In case of a service retailing, there is no stock because service is intangible and cannot be stored. Many organizations such as banks, hospitals, health spas, legal clinics, entertainment firms, and universities that offer services to consumers traditionally haven't considered themselves as retailers. Due to increased competition, these organizations are adopting retailing principles to attract customers and satisfy their needs.

Services have some unique characteristics when compared to products. These are:

1. **Intangibility**: No possibility of the customer to see, touch or feel the service proposition before or during the purchase. For example, medical checkup done by a doctor is intangible because you cannot see, touch or feel the service.
2. **Very difficult to evaluate or measure quality of service**: In case of vegetables, we can easily identify whether the vegetables are fresh or not. For services can we say the same? In case of any defect like the vegetable being spoilt or rotten, we can get the rotten smell or see the spoilt part of it and can easily identify. Is the same possible in case of services?
3. **Customer cannot stake claim of ownership or possession of the service proposition**: He can only experience the offer. If a product like scooter is purchased, then it will have a number, colour, name, registration in order to claim ownership in case of disputes. But can you claim the ownership for a doctor's service?
4. **No scope for inventory and stock measurement**: We can see big warehouses and warehousing as a function for products, where the stock of goods is kept and frequently verified. The same is not applicable for services. There are no warehouses and inventory for services.
5. **The benefit of stocking**: As services cannot be stocked, there is a significant amount of loss that a provider has to incur. For example, let us say a doctor earns Rs. 1000

per day and a vegetable vendor sells vegetables worth Rs. 500 per day. In case of holidays, both the doctor and the vegetable vendor will lose their amounts but the loss for a vegetable vendor is virtual because he still has the Rs. 500 worth vegetables in his inventory which he can sell the next day.

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6. **Benefit of perish ability**: Let us take the example of the vegetable vendor: The vegetables he sells 1 have a shelf life of maximum one week. After that, he has to throw them away because they are rotten or spoiled. In case of medicines we have expiry dates. Perish ability is not there in case of services.
7. **Simultaneous production and consumption**: In case of goods, they are manufactured in a factory, stored in a warehouse and taken out when there is a demand. We can see that there can be a delay between production and consumption. In case of services, the production and consumption happens simultaneously.
8. Services rendered are variable and inseparable.

Table 8.1 shows the list of services and the various companies involved in it.

***Table 8.1:** List of Services and Companies Involved in it*

Type of service	*Companies*
Airlines	Indian Airlines, Jet Airways, Sahara Airlines
Banks	State Bank of India, Vijaya Bank
Education	Madurai Kamraj University, IIM Bangalore
Entertainment	Wonder la, Bowling alley, Game point
Online share trading	ICICI online, Karvy online, Kotak online
Fitness	Talwalkars, Universal gym
Hospitals	Apollo hospitals, Medwin hospitals,
Hotels & Restaurents	Grand Ashoka, Kakatiya Sheraton,
Insurance	LIC, ICICI Prudential, Met life
Internet	Dataone(BSNL), TATA, Airtel
Telephone	BSNL, TATA INDICOM
Weight loss	VLCC, Slimming center

8.8 SUMMARY

To fully comprehend and develop a retail plan, a retail professional must have a good understanding of the environment in which they are operating. The study of the environment includes understanding the various retail establishments in terms of ownership patterns, product assortments, pricing strategies, size and location of retail business. According to ownership pattern, retail business can be classified into independent retailer, multiple retailer, franchise and cooperatives. The broadest classification of retail formats is into store and non-store based formats. Store-based formats are further classified on the basis of size, product mix and price into departmental store, specialty retailer, discount store, category killer, warehouse clubs, off price retailer, convenience store, supermarkets, hypermarkets, and super stores. Non-store based formats include telesales, direct mail, TV shopping, and Internet. There are three theories concerning the evolution of retail. They are cyclical, conflict and environmental theories. Retailers today are innovating various formats in order to differentiate themselves with the other retailers within the same format.

Check Your Progress

6. What are the two theories under the cyclical theories of retail evolution?
7. Define franchising? What are the different types of franchising?
8. Differentiate between trade-mark and manufacturing franchising.
9. List the variables used to classify the retail format.
10. Differentiate between telesales and personal retailing.

8.9 ANSWERS TO 'CHECK YOUR PROGRESS'

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1. Yes. An independent retailer operates only one retail establishment. The majority of stores are owner or family managed. Many independent retailers are sole traders, or family-run businesses operating out of a single site. The store may offer a specialized product or a wide variety of products.
2. The independent retailer, the multiple retailer, the cooperatives, and the franchise.
3. Flexibility in formats, location and strategy; Proximity of management to the consumer, giving a better understanding of customer; Low resources required giving low exposure to risk; High chances of having good rapport with customers are the advantages of independent retail. Whereas chain retail have a central operational headquarters and a collection of branch stores under common ownership.
4. Advantages and disadvantages

   Advantages:
   - Flexibility in formats, location and strategy
   - Proximity of management to the consumer, giving a better understanding of customer
   - Low resources required giving low exposure to risk
   - High chances of having good rapport with customers

   Disadvantages:
   - Lack of economies of scale
   - Limited growth prospects
   - High dependence on the owner
   - Limited long-term planning
   - Less negotiating power with suppliers

   Advantages and disadvantages of chain retail

   Advantages:
   - Economies of scale
   - Bargaining power
   - Efficiency and cost-effectiveness through technology
   - Organized and systematic – has a management philosophy and policy
   - Long-range planning

   Disadvantages:
   - Low flexibility
   - High investment costs and risk
   - Limited independence among personnel
   - Slow response or change to environmental demands
   - Low customization
5. There are three major types of cooperatives. They are retail sponsored cooperatives, wholesale sponsored cooperatives and consumer cooperatives.
6. Wheel of retailing and Retail Accordion Theory.
7. A franchise is a contractual agreement between a franchisor and a franchisee that allows the franchisee to operate a retail establishment using the name and the operating methods. The types of franchising are Product Franchise Business Opportunity,

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Manufacturing Franchise Opportunity, Business Franchise Opportunity Ventures and Business Format Franchise Opportunity.

8. A trademark franchise is the same as product franchise business except for the nature of terms and conditions.
9. Retail in India can be classified into three distinct format groups, according to their newness. The first is the classical format which includes *Haats, Melas* and *Mandis*. The second are the ones that have been established for many years which include *kirana* shops, *pan-beedi* shops, fair price shops, co-operative stores, departmental stores and mutli-brand outlets, company show rooms. The third category includes the new and emerging formats of retailing which include exclusive retail outlets, hypermarkets, and multiplexes.
10. Personal approaches are perhaps the oldest form of retailing grounded in the activity of peddlers who travel from house to house with their wares. Door-to-door selling is less nowadays. Sometimes direct selling is used to denote the sales interaction that involves personal contact via telephone, at the customer's home or outside location like office, restaurant, etc.

8.10 EXERCISES AND QUESTIONS

1. Compare and contrast shopping via stores and non-store shopping?
2. Why is it important for a retailer to know the various retail formats?
3. Discuss the three theories of retail evolution
4. What is services retailing, and how is it different from conventional retailing?
5. Match the following:

(*a*) Amazon.com	1. Speciality retail
(*b*) Reliance fresh	2. Convenience store
(*c*) Titan	3. e-tailing
(*d*) Mom and pop stores	4. Super market
(*e*) Shoppers' Stop	.5. Warehouse club
(*f*) Metro	6. Departmental store

8.11 FURTHER READING

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3. Levy and Weitz, *Retailing Management*; Irwin, 2004.
4. Dunne, Lusch and Gable, *Retailing*; South-Wester, 2002.
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UNIT 9 UNDERSTANDING CONSUMPTION AND CONSUMER

Structure

9.0 INTRODUCTION

Though there are many definitions of retailing, we must understand that success of retailing does not depend on whether a retailer knows the definition of retailing or not. Or simply that a definition does not guarantee the success of retailing. For example, retailing has been defined as a concept that is all about reaching out to the consumers first hand through formats that differentiate offerings to suit their needs, to fulfill them every time and provide true shopping value. It's about efficiently providing a vehicle for mediation with the customers, with the right merchandise at the right place in the right quantities/assortments/sizes at the right price and at the right time. It is more important to get the essence of the above definition than to just remember it. A retail professional should understand that fulfilling the needs of the customers and keeping them satisfied by providing true shopping value is more essential than anything else. This unit helps you in knowing more about consumers and consumption.

9.1 UNIT OBJECTIVES

- Defining the role of retailing within the general arena of personal consumption
- Exploring the nature of changes in consumers and reflect on their likely effect on retailing activity
- Appreciating the various levels of impact that changing consumer profiles can have on retailers
- Understanding the complexity of retailing as a socio-economic activity and the role of a consumer in it
- Appreciating that consumers have different motivations for shopping
- Understanding the consumer decision-making process

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9.2 CONSUMPTION AND CONSUMER

All retail entrepreneurs are not retail management students. Sam Walton, founder of Wal-Mart, may not have studied retailing but his understanding of customers, employees and the market is the secret behind his success. Even an uneducated person can open and run a *kirana* shop. Through hands-on experience, he can become a professional. It is commonly seen that even uneducated shopkeepers are better at numerical calculations and customer relations than highly educated customers. This is not to say that education is bad or an uneducated person is better than an educated person. This is only to make you understand the kind of competitors that there are in the market and their strengths, so that you do not underestimate anybody or feel too proud about your certificate in retail management. In the real world, success bestows more on those people who understand the customers than those who just have a certificate without any understanding. So let us start understanding a consumer.

A consumer can be defined as an individual who ultimately consumes the product sold. From this perspective, we should be able to differentiate between a customer and consumer. A customer is any individual who purchases the product. Customer and consumer need not be same. For example, a father goes to a shop to purchase chocolate for his son. Here father is the customer but the chocolate is consumed by his son. Therefore, in the above context, father is the customer and son is the consumer. If a father goes to a shop to purchase a shirt for himself, in this context the father is both the customer and consumer. Consumption in this context refers to the usage of the product.

Retailing activity is defined as selling goods and services to final consumers for their personal, or their family's consumption. It is in the interest of any retailer to gather as much information about the final consumer as he can in order to ensure that goods and services offered remain relevant to consumers. All consumers are potential customers to a retail business, however what is more appropriate for retail managers is the identification of a group of consumers who are likely to become actual customers or purchasers within their own outlet. These groups of people may be defined in terms of their geographical location, for example, or they might be more conveniently grouped according to product or service needs. Questions retailers might ask about their customers could be: Who are they? Where are they? What do they need? What do they like? How old are they? How much can they spend? How do they like to shop?

There may also be questions to ask about customers' relationship with all retailers in the sector. For example: Who are our current customers? Who are our competitor's customers? In a saturated marketplace, can we convert them? Would this be economically viable (given that converting new customers is much more costly than keeping existing ones)? Who will be our customers in the future? Are customers changing? Does that change have a positive or negative effect on our business? Are there different customers that have poor retail provision? Retailers who are in touch with their customers and their needs and wants are more likely to find retail formulae that are relevant to consumers.

A retailer's role in the arena of personal consumption is that of distributor and facilitator. A retailer provides a convenient point for a consumer to obtain goods and services, either by being in a location that is closer than that of the producer and by selling in quantities appropriate to the needs of the consumer, or by providing added value in the offer, such as range assortment or additional services. In a developed society, retailers play a greater role than the distribution viewpoint would imply. They provide an information service; they provide an environment in which new products can be discovered, new fashions followed and lifestyle patterns endorsed. Retailers have the benefit of a direct interface with the final consumer, therefore they should have an advantage over producers when it comes to gathering information about customers in terms of who they are and how and what they

buy. However, all too often retailers make too many assumptions about their customers and do not have a thorough and researched awareness of how their customers' needs, wants and preferences can change over time.

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When consumer shop, they buy products which are classified into different categories on the basis of the consumers' perspective. Convenience goods and shopping goods are the chief categories while specially items and unsought good form the lesser category. Consumer buy most of the shopping products from retail, grocery and specialty stores as well as through mail-order, telemarketing and cyber shopping. The most recent trend is shopping via the Internet and it is predicted that the beginning of the 21st century will see $300 billion worth of on-line purchases.

Convenience Goods

Goods that consumers buy often, quickly and conveniently are called 'convenience goods'. These do not involve much expenditure but are made as a matter of routine. Purchasing groceries on a weekly basis, the daily buying of newspaper, milk and bread are some such items. Some convenience goods are bought on whim or impulse, such as ice-cream, candy, magazines and batteries, usually displayed attractively near the ash counters. Another category of convenience goods are items for emergency, such as candles, water or shovels. Most convenient products are housed in supermarkets, convenience and departmental stores.

Shopping Goods

Shopping goods comprise those items that involve considerable selection, energy, time and effort to be spent on the part of the consumer. The aim is to get the product that meets one's needs the best. For such a product, consumers will make comparisons of suitability, quality, price and style and check out a member of shopping places making the final choice.

Automobiles are an example of shopping goods.

There are two categories of shopping goods, homogeneous and heterogeneous. Homogeneous goods are similar in qua' , ..."erent in other features. Examples are television sets, home appliances, automobiles. Usually, the consumer, after choosing the desired features, makes a decision of regarc. _ ..h goods on the best price offered.

Heterogeneous shopping goods have product characteristics, ·art from price, that consumers might value more, as clothing, high-tech equipment, furniture. The consumer is clear as to the size, colour or specific function he is looking for, and will consult many salespeople and experts before making a purchase. Thus a retailer of heterogeneous shopping goods must have a vast variety for different tastes and a trained sales staff to give proper information and advice.

Specialty Items

Specialty items are those that have such outstanding features that consumers will make special efforts to buy them, often disregarding the price. Under this fall specific foods, expensive imported cars, products from a famous fashion designer or manufacturer, usually carrying a brand name a exclusive feature. However, what is a convenience item in one place may be a specialty in another; it all depends upon the location and need of the customer. Such product would be found in specialty stores, keeping a large assortment of a small line of goods, such as bookstores and sports goods stores. Consumers having a penchant for such goods will even travel the extra mile to acquire them.

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Unsought Goods

Unsought goods, as the very name suggests, are those that are not wanted, used or even considered as an item of purchase by consumers. Simply, they are unimportant, and have to be brought to the consumers' notice by advertising, promotions or chance. They could range from new items in the market, like digital phones, to standard services like life insurance.

9.3 CHANGING CONSUMER DEMOGRAPHICS

Consumer trends describe how the body of consumers changes over time and make predictions about how those people will consume in the future. The retailer can therefore build up a 'customer profile' that gives an indication of who might 'typically' use their outlet. A retail customer profile is affected by the macro (general) business environment; for example, the macro-economic policies a government pursues in relation to personal taxation and interest rates affects the spending power of retail customers, and the extent to which we are familiar with technology will affect our propensity to use technologically-based retail formats to undertake shopping activities. A retailer's customer profile is also influenced by the micro-environment, the specific business arena in which the individual retailer operates. For example, the entry of Amazon.com into the book retailing market gave traditional retailers like Waterstones and Ottakars new competition, not only in the form of a new company, but also a whole new way of shopping. Subsequently, store-based retailers have put more effort into creating a pleasant store environment, conducive to browsing and sampling a book over a cup of coffee, something that Internet retailers are unable to offer. Book retailers might therefore be able to group their customers according to the ways they like to shop for books, and address their needs accordingly. Some of the most radical changes in consumers in developed economies like Europe and the US are those that emanate from the changes in society itself; the changing nature of a population's age profile, changes in the numbers and types of activities of the working population, and the way in which lifestyles are changing. The resulting manifestations of alterations in shopping behaviour and product preferences are of interest to the retailer, as they may require some adaptation to the retailer's business in order to maintain an adequate customer flow.

One of the most fundamental changes to the consumer body is that concerning demographics. This is the study of populations in terms of measurable aspects such as birth rate, age profiles, working patterns and occupations, family and household structures, education levels, and total income and expenditure levels. These changes are generally out of a retailer's control, depending very much on the social and economic development of a given population, and they are usually relatively slow-moving changes. However, retailers must be aware of the implications of such changes, so that they can be accommodated in a retailer's long-term strategic planning. Some of the demographic changes that are likely to have an impact on retailers are now explored in more detail.

The **age profile** of the consumer market can be extremely relevant to a retail business. Although out of a retailer's control, the death rate and birth rate influence the 'bulges' in generation cohorts, which may have positive or negative effects on the potential customer base. Retailers of young fashion may struggle due to a falling population of teenagers, at the same time as children's wear retailers are thriving due to an upturn in the birth rate. Clearly, some retailers are more directly influenced by changing age patterns than others, when their product range is directly linked to the age of the consumer. For example, diapers will be used only by the children and the companies manufacturing diapers will profit from high birth rate. But for products like personal computers, income rather than age will affect the consumption pattern. Recently women have been given importance as a significant customer.

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Retailers are using occasions like Mother's Day, and Women's Day to tell them that they recognize that they are important.

The trend for more women to work both in part-time and full-time occupations has influenced the way the retail industry has developed. Some of these are highlighted below:

The influence of working women on retailing:

(*a*) The growth of convenience products in the grocery market, for example ready-prepared meals were a product category initially pioneered by Marks and Spencer, and now most supermarkets have take-away food.

(*b*) The increased offer of products and services under one roof — the one-stop shop, or perhaps more accurately the one-stop household service. Many superstores offer pharmacies, dry cleaning, photograph processing, shoe repair and post-office services, alongside the extensive food and non-food household product range.

(*c*) Child-orientated facilities to ease the burden of shopping with children, for example creches, changing facilities, parent and child car parking places, trolleys with baby carriers.

Other demographic trends that might affect retailers include geographical shifts, and ethnic diversity. Retailers like Tesco use geo-marketing techniques to ensure that their store formats and product ranges are tailored to local catchment areas. It may be important for retailers to provide customer information in alternative languages in order to reflect the ethnic character of the local market.

Although the feeling of being better-off is influenced by our level of wealth relative to those we come into contact with, rather than our actual income level, the majority of consumers in developed societies such as Europe and the USA have enjoyed an **increasing level of personal disposable income** since the Second World War. We now spend a smaller proportion of our income on what might be termed 'the essentials' of life, such as housing and food, whereas the proportion of our income spent on discretionary purchases such as fashion goods, household appliances, eating out, holidays and entertainment has increased. This means that retailers and manufacturers are able to benefit by encouraging consumers to 'trade-up' in their essential purchases, and make discretionary purchases appear to be 'essential'.

Demographics are the measurable outcomes of societal change. For example, the UK has experienced a fall in the size of families and households over the last two decades as the result of a number of variables, many of which are interrelated: the increased availability and acceptability of contraception; an increased number of women having a 'career' and so starting a family later or deciding not to have a family; an increase in the divorce rate, resulting in more households and 'irregular' family groups (for example, a couple may live on their own in the week, with an influx of children from two previous marriages at the weekends); and more elderly people living independently, often single, for longer periods of time. Retailers need to be aware of these changes in terms of how they affect the number of consumers in different demographic categories, but equally important is to be able to have an understanding of how the changes influence the lifestyles of groups of people in the various demographic categories.

9.4 LIFESTYLE CHANGES

A complete and thorough exploration of societal influences on consumption is beyond the scope of this text. However, some of the lifestyle changes that have occurred recently and have had a significant effect on retailers are:

(*a*) Time poverty and therefore a resulting convenience orientation, particularly for working women (see earlier section on working patterns).

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(*b*) Car dependency, resulting in a growth of edge-of-town and out-of-town shopping centres.

(*c*) Cellular families, resulting in a growth of spending on personal appliances; households with teenage children are likely to have multiple television sets, telephones, music players and personal computers.

(*d*) Informality, as a possible result of the weakening influence of traditional bodies of authority such as the church, police, the state and the family. In particular, clothing retailers have been challenged by this trend, but it has also had its effect on home furnishings. IKEA, for example, has used informality and fun as a theme in its customer communications, with traditional and formal styles being portrayed as old-fashioned.

(*e*) Labour-saving appliances like dishwashers and microwaves have a high penetration in the UK households, but retailers in general have to respond to the fact that shopping is increasingly regarded as a leisure pursuit which should be enjoyable, entertaining, interesting and hassle-free, with service offerings such as restaurants, bars and coffee shops, sporting facilities and entertainment venues in close proximity.

There have also been changes in attitudes within the general body of consumers, which again has influenced the way they shop and the products they choose. These would include the weakening influence of traditional authority indicated above, environmental awareness and consciousness, health consciousness and value orientation.

Within this general appreciation of the nature of consumers as a living, changing, adapting, and thriving body of potential customers, retailers need to audit the consuming population in order to establish the rate and impact of change on their own individual businesses.

9.5 SHOPPING BEHAVIOUR

Until now we have seen customers from macro point of view, *i.e.*, the customer from the perspective of total potential market. The study of consumer from the micro perspective, *i.e.*, consumer as an individual is more important today, because the more customized your offering is the better will be the customer satisfaction.

Let us understand the consumer buying process. Let us recall the processes that go into the whole activity of buying. Obviously we find that a need motivates us to make a purchase. Most of the purchase decisions pass through the five stages of decision-making as given below:

1. **Need recognition**: The first and foremost stage is recognising that one needs to buy. This recognition or identification of need might be generic or specific. For example, by seeing an empty refrigerator one is prompted with the thought that he must visit the supermarket; then the specific product related thought that he must buy a box of eggs. Some buying decisions are routine or habitual and do not require that you go through all the stages of decision-making. For example, at the beginning of every month or on the day of receipt of salary, one decides to go for shopping. When he gets hungry, he finds that he needs food, he searches information regarding various foods available, evaluates which food is better and selects it. The stages in decision making will be more clear in case of first-time buying or non-routine buying than in routine buying.
2. **Information search**: In the second stage, consumers use retail outlets extensively for information about goods and services. Retailers provide information in many forms, including point-of-sale information, leaflets and catalogues, websites, interactive product trials such as food tasting, trying on garments or listening to music, and in the one-to-one advice given to customers about their intended purchase by sales

personnel. In particular, a sales person can help to move a customer from the stage where he is searching for information about products, to the point at which he starts to evaluate the alternatives on offer and make a choice.

3. **Evaluation**: During the search and evaluation stage the retailer itself rather than the product may become the focus of a consumer's evaluation. Customer loyalty and the value of the retailer's corporate brand may encourage a consumer to restrict his search and evaluation activity. It is in the retailer's interest to take a consumer to the purchasing stage efficiently in order to prevent a customer from going to a competitor's outlet. In a saturated retail market, ensuring that customers keep returning to your store or website is a vital ingredient of a retailer's strategy, and as European markets have matured, increasing focus has been placed on customer loyalty. Defining loyalty in retailing is not straightforward because it can be measured in more than one way; frequency of visit, extent of switching and expenditure levels. Irrespective of the way loyalty is measured, loyal customers are more profitable to retailers than other types of customers, and therefore every effort should be made to maximize their satisfaction. This is a growing challenge as consumers face increasing choice through their own mobility and gain experience as shoppers, and their loyalty levels could fall.
4. **Select and purchase**: The extent to which a retailer can influence this stage of the process is closely linked to the type of product being purchased. In low-involvement products, the consumer may be influenced by some in-store promotional activity, whereas in medium involvement products, such as beauty products, the matching of product benefits to customer-needs by sales associates will play an important role. In high involvement purchase decisions, such as a carpet, the shopper may revisit alternative retailers a number of times to gather information on product attributes such as price, quality, colour, payment methods and delivery before making a final decision.
5. **Post-purchase evaluation**: Again, the extent to which the product or the retailer is judged after the sale will depend on the type of purchase. For high involvement purchases, high levels of post-purchase customer service can help to alleviate any worries about installation and use, whilst clear and generous returns and exchange policies can help to reassure the customer in the purchase of all types of products.

The model of the consumer purchase decision-making process assumes that the consumer is a rational and economic person, whose evaluation is strictly geared to physical benefits of the product bought. In fact the activity of shopping is tied up with a whole host of human emotion and behaviour, involving benefits sought to satisfy myriad psychological needs. Product needs vary from the functional (for example, a vacuum cleaner) to the psychological (for example, a Mercedes car); however, most products offer both functional and psychological benefits. For example, the Dyson vacuum cleaner is designed with a transparent dust-collection cylinder providing the user with the psychologically-satisfying view of all the trapped dirt! Shopping also fulfills functional and psychological needs, and can vary from a chore to the most favoured leisure pursuit.

A retail outlet can be designed to make it functional, easier to shop and less of a chore:

- By locating the outlet in the most convenient situation, considering travel time, congestion, ease of parking and accessibility
- By providing a logical layout (applies to both store and non-store outlets)
- Ensuring POS information is clear and easily understood
- Providing good customer service
- Ensuring good stock availability
- Providing fast and flexible payment facilities

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A retail outlet can also be designed to encourage customers to view shopping as a pleasurable leisure pursuit:

- Ensure customer service levels are high. Staff/customer interactions should be pleasant, cheerful and courteous. Staff should appear interested in and knowledgeable about the products(s) that they are selling.
- Provide eating-places. Customers should be comfortable and well-fed. The provision of restaurants, cafes and tasting bars all help to keep the customer relaxed, and encourage prolonged shopping activities. Entertain the customer. There are various ways in which customers can be entertained. For example, some supermarkets have introduced 'live chef sessions, and many clothing stores arrange fashion shows (on video if the store is too small). The store environment itself can be designed to provide entertaining features, for example, children's wear retailers have used talking trees, hissing snakes and push-button interactive information points to keep their short-attention-span-customers in a good frame of mind!
- Make the store environment enthralling. An inspiring store is likely to encourage customers to browse, whereas one that is dull and badly laid out will do the opposite! The store design and the displays, together with music, lighting and even aromas can create an atmosphere that makes shopping 'an experience'.
- Choose an outlet location that combines retail and leisure activities. Many modern shopping centres combine retail outlets with other leisure destinations, such as cinemas, sport facilities, cafes and bars, and tourist attractions. This encourages customers to view the shopping activity as part of a 'day out'. The proximity to other retailers in a centre can also be important in terms of generating high footfall.

Shopping Missions

Another limitation of the consumer purchase decision-making model is that the way we shop can be influenced by the shopping mission. The following accounts of shopping for essentially what could be described as square sheets of absorbent paper, illustrate how different missions have implications for the way a consumer shops, and for the retailer concerned with the purchase:

- **Emergency situation.** Suffering from hay fever, Ms X is in desperate need of tissues! She will buy them from the nearest outlet that has product availability, and product attributes such as price, brand, quality and design are not relevant in this situation. Convenience stores are therefore able to apply high profit margins to this type of product.
- **Routine buying.** On a visit to a supermarket to do the weekly household shop, Ms X purchases a family pack of tissues. She assumes the current pack at home will not last much longer. She may be influenced by promotional offers (such as 2 for 1) and may use other product criteria such as colour and use of recycled materials in her purchase decision. However, her overall involvement in the purchase is low.
- **Destination shopping.** Ms X is organizing a dinner party. She needs to buy some table napkins and she is concerned that the quality of the napkins reflects her excellent cookery skills, and that the design complements the decor in her dining room. She heads for a department store located within a nearby regional shopping centre where she knows she will find a wide selection of designs to choose from. She is not price sensitive in her purchase, although she believes this reputable retailer provides good value for money.
- **Browsing.** Later in the year Ms X is doing her Christmas shopping. Whilst browsing through a variety store she notices some novelty tissues with cartoon characters printed on them. She decides that these would make a good stocking-filler present

Check Your Progress

1. Differentiate between a customer and consumer with an example.
2. What kind of questions, should the retailer ask to better understand his consumer?
3. Differentiate between the macro and micro perspectives in understanding a consumer.

for her 9-year-old daughter. She then moves on to the male toiletries section to find an equivalent gift for her 11-year-old son.

Shopping Motivations

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Tauber (1972) was one of the first researchers to ask the question 'why do people shop?' Appreciating that there were reasons other than the simple necessity to purchase physical products he found that consumer's motivations for shopping are derived from many factors, some of which are less related to the buying of products, and more related to personal and social motivations. He went on to suggest that retailers need to consider the satisfaction that a consumer gets from the shopping activity itself, as well as the utility obtained from product bought if they are to fully understand consumer's motivations for shopping.

Consumer research has uncovered other psychological motivations for shopping, and Table 9.1 provides a summary of reasons why people go shopping other than to purchase a product to satisfy a physical need, such as running out of an item or something wearing out!

Table 9.1: The Shopping Motivations

Personal stimulation	The need for 'an experience'; the enjoyment of being in an interesting or different environment
Social experiences	The need to be with people; to go shopping with friends, to talk to people with similar interests, to have contact with a peer group
Learning	The need to acquire knowledge in order to become an 'educated shopper'; finding out about new products, following fashion trends, talking to 'experts' in stores
Status and power	The need to exert authority, to gain attention from retail personnel, to have somebody serve and show respect
Self-reward	The need to treat oneself, or to put oneself in a positive frame of mind
Diversion	The need to alleviate boredom, to provide a break in the daily routine, to get out and about
Exercise	The need to move about and get some fresh air
Role-play	The need to reinforce a role or to play a role to which one aspires; for example, the role of the provider (in the gathering of the weekly family needs)
Bargain hunting	The need to show expertise in finding value in purchasing; the need to have 'beaten' the retailer by buying at discounted prices

As a generalisation, the shopping process can be broken down into two separate categories. The first is sometimes referred to as 'chore shopping', and is a reflection of how many people feel about, for example, grocery shopping. It is the kind of shopping that has to be performed in order to replenish food and household goods, or to replace worn-out items. Although many people love shopping for clothes, there is a significant section of the population (many of whom are male) who would consider clothes shopping to be a chore. However, a key feature of chore shopping is the low-involvement routine nature of the task and therefore it can be separated from clothes shopping. The main objective with chore shopping, for most people, is to perform the task as efficiently as possible.

The second general category of shopping activity is the one that usually involves high-involvement or one-off purchases, and for these the consumer will go through all of the stages in the consumer purchasing process, and may spend a long period of time in the early stages gathering information and trying out alternatives. The key difference in the two types of shopping from the retailer's point of view is that for low involvement (chore) shopping it is in the consumer's interest to establish a routine in order to maximize efficiency, and one of the ways of doing this is to choose one store and buy as many things from that store as possible. When a consumer buys a high involvement product they will like to

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consider many alternatives, whereas in the routine process a customer will generally be happy with a smaller number of alternatives, and in many instances will have already decided amongst alternatives based on previous experience. How consumers choose between alternative stores is therefore as important to retailers as how consumers make decisions about what product to buy. As a consumer gains experience within a product classification, such as clothing or household appliances, decisions regarding store choices hold more weight than those regarding the products themselves. Although in the early stages of adoption as a form of shopping, the choice of website from which to order is likely to be subject to a similar process of decision-making.

9.6 RETAIL OUTLET CHOICE

There are many factors that influence how we as consumers feel about a retail outlet. Clearly in the light of the previous discussion, the product range offered is one of those factors. However, in a saturated retail market there may be a number of outlets offering very similar product ranges, and so other means of differentiation become important in the retail offer. The following factors were considered important by more than one-quarter of respondents in a study of why customers chose one grocery store over another:

- Attractive prices
- Location
- Quality of products
- Wide range of products
- Measures to reduce queues at checkout
- Fresh food service (*e.g.*, delicatessen, fresh fish, etc.)
- Longer opening hours
- Good own-label range
- Cash point facilities
- Express checkout

Attempts have been made to model the process of store choice decision-making, and these models can help retailers to carry out their own research in order to understand what is really important to customers (and potential customers) when choosing one outlet for their shopping over another. The multi-attribute model has been used widely in retail studies in order to measure the relevance of a retail outlet's attributes to the selection criteria used by shoppers. The following hypothetical illustration shows how this type of store-choice modelling can be used.

The Multi-attribute Store-choice Model

The first stage of using the model is to identify stores that are a customer's alternatives. The set may include outlets that compete on an intertype or an intratype basis. Then, evaluate each store on various variables like price level, offers, car parking, speed through checkout, number of product in the food, grocery, and pharmacy categories, and store environment. The evaluation can be on a quantitative or a qualitative basis. For example, if the measurement is on a quantitative basis, the customer can be asked to give a score between 1 and 10 for each attribute. On the other hand, if it is a qualitative measure, then very good, good, neither good nor bad, bad, worst can be used. Ultimately one should arrive at a quantitative score through coding (–2 for worst, –1 for bad so on). The totals of the numbers thus got, is used to judge which store is best and how to improve. Another variation can be weighing the attributes. In this case, the attributes are given weightage points and these are multiplied with scores to arrive at final result.

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Retail Segmentation

The result of the type of research outlined above could indicate to retailers where loyalty might be generated within a specific customer group and many retailers gear their offerings to particular groups of individuals who they have identified as being accessible enough and viable enough to support a business. For example, their level of need and willingness to be loyal provides a flow of income that maintains the operation. This process is known as segmentation and targeting: the retailer splits the total population of the consumer market into a number of segments, into which individuals are placed according to their own physical or psychographic characteristics, and then the retail offer is aimed at the 'target' segment. A number of retailers have gained success by targeting a narrow segment, but for general retailers, the customer groups served might be quite broad.

A deep understanding of the consumer is a prerequisite to successful segmentation. Some of the more common methods used by retailers to segment their markets are:

- **Demographic:** age, gender, family size, family life-cycle, income, occupation
- **Psychographic:** social class, lifestyle, personality, attitudes
- **Behavioural:** benefits sought, loyalty status, usage rate
- Geographical

It is useful to separate the last variable because it can be used either from the point of view of where the customer lives, or where the buying activity actually takes place. For example, some consumers can be geographically grouped according to their travel routes, or where they carry out their work. Boots, for example, targets 'lunchtime' shoppers with their takeaway food range and lunchtime deals. Yet, two of those lunchtime shoppers may live in very different suburbs of the town in which Boots is located, and therefore be considered in a very different customer segment by a different retail company; indeed, to a convenience store one of the customers may be a viable target, but the other who lives on the opposite side of town is completely irrelevant.

Segmentation based on Shopping Behaviour

Some attempts have been made to group consumers on the basis of their shopping behaviour, which can generally be viewed as a combination of psychographic and behavioural segmentation. Categories have been developed such as: the convenience shopper; the bargain hunting or economic shopper; the environmental/socially concerned shopper; the personalising or innovative opinion-leading shopper; the fashion follower; the traditional shopper; the creative shopper; the recreational shopper; and even the apathetic or uninvolved shopper. In an era of multi-channel strategies, retailers may increasingly use the customer's preferred methods of shopping as a basis for segmenting customer markets. For example, Internet shopping might appeal to customers that lack time, lack mobility, or dislike the social aspects of shopping, whilst store shopping is more likely to appeal to those with more time who enjoy browsing and impulse purchasing. Segmentation has traditionally been very important to retail businesses. The viability of the segmentation process depends on the identification and separability of accessible, measurable and viable groups of potential customers. If a target customer segment is no longer viable, or another segment looks more attractive, a retailer may need to use new criteria for segmentation and 'reposition' the business.

Check Your Progress

4. Who is more important a customer or a consumer? Why?
5. How does birth rate affect a diaper manufacturer?
6. What is shopping mission, how does it affect consumer decision making?
7. What is habitual or routine buying?

9.7 SUMMARY

In this unit we have outlined the need for retailers to get to know their customers, both as a group of people within a population, and as individuals. Having an in-depth knowledge about customer's product and store preferences allows retailers to gear their businesses

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towards the customer and make their product and service offerings more attractive than those of competitors. Customers exist within a society, and are subject to a host of influencing factors that shape the way they shop. Customers are complex human beings, they may act differently according to the type of shopping trip they are on, seeking value during one shopping mission, and then indulging themselves on another. This gives rise to the notion of a hybrid customer, within a market of customers who seem to be increasingly less predictable as groups. At the same time, international retailing activity reflects an acceptance of global brands in a world-wide market in which needs and tastes converge.

9.8 ANSWERS TO 'CHECK YOUR PROGRESS'

1. A customer is any individual who purchases the product. Customer and consumer need not be same. For example, a father goes to a shop to purchase chocolate for his son. Here father is the customer but the chocolate is consumed by his son. Therefore, in the above context, father is the customer and son is the consumer.
2. Questions retailers might ask about their customers could be: Who are they? Where are they? What do they need? What do they like? How old are they? How much can they spend? How do they like to shop?
3. A retail customer profile is affected by the macro (general) business environment; for example, the macro-economic policies a government pursues in relation to personal taxation and interest rates affects the spending power of retail customers, and the extent to which we are familiar with technology will affect our propensity to use technologically-based retail formats to undertake shopping activities. A retailer's customer profile is also influenced by the micro-environment, the specific business arena in which the individual retailer operates. For example, the entry of Amazon.com into the book retailing market gave traditional retailers like Waterstones and Ottakars new competition, not only in the form of a new company, but also a whole new way of shopping.
4. All consumers are potential customers to a retail business; however what is more appropriate for retail managers is the identification of a group of consumers who are likely to become actual customers or purchasers within their own outlet.
5. Diapers will be used only by the children and the companies manufacturing diapers will profit from high birth rate.
6. A limitation of the consumer purchase decision making model is that the way we shop can be influenced by the shopping mission.
7. Convenience goods are goods that consumers purchase frequently, immediately, and with minimal effort. People do not spend a large amount of time shopping for convenience items. They are usually purchases made routinely, such as buying groceries on a weekly basis, or habitually, such as purchasing a daily newspaper.

9.9 EXERCISES AND QUESTIONS

1. Discuss the importance of consumption knowledge to a retailer.
2. Define dynamism from the perspective of a customer and how it affects retailing?
3. Explain the role of retailing in the arena of personal consumption.
4. Define and discuss segmentation.
5. Discuss the motivations for shopping behaviour.
6. Explain with examples the consumer decision making process.

7. Discuss the influence of lifestyle changes on retailing.
8. Discuss the various theories on retaïl outlet choices.

9.10 FURTHER READING

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1. Berman and Evans, *Retail Management*; Prentice Hall, 2004.
2. Varley Rosemary and Mohammed Rafiq, *Principles of Retail Management*; Palgrave MacMillan, 2005.
3. Levy and Weitz, *Retailing Management*; Irwin, 2004.
4. Dunne, Lusch and Gable, *Retailing*; South-Wester, 2002.
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UNIT 10 LAW AND ETHICS IN RETAILING

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Structure

10.0 INTRODUCTION

Business exists for profit, but this profit should not be at the cost of the customer or society. A business cannot survive for long if its actions are illegal and unethical. For example, in October 2001, Enron, one of the world's leading energy companies, came under scrutiny for manipulating its financial statements. Enron is primarily a provider of energy, but it also has a retail division. As a result of these developments, the investing public lost so much faith in the company that Enron was forced to file for Chapter 11 bankruptcy on December 2, 2001. Since the Enron fiasco, businesses and academicians have become more focused on law and ethical decisions and their influence on corporate behaviour. Legal and ethical decisions are interwined with all aspects of retailing. This unit provides an overview of the various laws that affect retailers and ethical issues that management and employees encounter.

10.1 UNIT OBJECTIVES

- Understanding the meaning of law and ethics
- Understanding the differences and commonality between law and ethics
- Becoming familiar with the various Acts related to retailing
- Knowing the ethical issues in retailing

10.2 LAW AND ETHICS

All businesses have to comply with the law of the land. Legal issues affect all aspects of a retailing business, and some of the areas of legislation that specifically affect retail strategy, such as competition regulation have been discussed earlier. Most retailers, however, realise that it is not sufficient merely to comply with legal requirements; there is an increasing pressure on retailers from consumers and other members of the society to behave in an ethical and socially responsible manner. So let us begin by understanding what the law and ethics mean.

It is paradoxical that the simplest terms are often the most difficult to define and in this respect, the words 'law' and 'ethic' are no exception. Law can be defined as "the body of rules whether proceeding from formal enactment or from custom, which a particular State

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or community recognises as binding on its subjects or members". We may also define law as rule of conduct on procedure, which is formed by authority, consumers or habit/usage. Ethics is a branch of philosophy that lays down the requirements for the welfare of the individual and society as well as the kind of duties that people must perform toward one another. It studies and evaluate human behaviour with regard to moral principles. These in town are the standards of conduct that society acquire to reach.

One of the characteristics of law is that it is for guidance or conduct of persons. This is so in case of ethics also, as there is a close relationship between the two. In fact, law not only has its origin in morality, but also is easier to enforce when people yield to government for moral reasons. It can often be difficult to determine the line between right and wrong. Many activities that are unethical are also illegal. However, in some instances an act is legal but unethical and in others an act is illegal but not unethical. For example, usage of semi nude women and implicit sex in promoting a product is unethical but it is legal, whereas as using nude women and explicit sex in advertising is both unethical and illegal. Advertising beer is illegal but ethical. More examples: Abortion is legal but unethical. Not showing respect to parents is legal but unethical.

10.3 LEGAL ISSUES

Law is almost a universal human need. No society can exist without a legal order. We need institutions and a framework of rules and regulations to provide firmness to our mutual relations. Without law, there would be complete anarchy in society. That is why we regard rule of law as the essence of civilized society.

Law and business are closely related disciplines. They complement each other. Law is a major factor in business decision-making. Almost every aspect of business is regulated by law. Even the installation of a business unit itself may involve observance of some legal provision or the other. For instance, in the case of a company, the various provisions of the companies act 1956 and other allied laws are to be complied with for incorporation and commencement of business. Intervention of law into business has become mandatory, due to various reasons like business practices amounting to monopolistic, restrictive or unfair trade practices which include supplying defective products, deficiency in the service provided by the business, etc. Apart from the trade practices, the law may require business to provide certain benefits, facilities to its employees, though the intervention of law into business is necessary, but to what extent should law intervene into business is a debatable topic.

Most of the laws are made reactively than proactively. The monopolies enquiry commission recommended the enactment of law to control concentration of economic power in the hands of business. This led to the adoption of Monopolies Restrictive Trade Practices Act 1969. Further the labour union movement arose out of conflicts between workers and industry. This led to the enactment of a plethora of laws for the welfare of the workers. Furthermore the consumer movement grew from consumer complaints about the defective goods and deficiency in services. The nature of law is more reactive than proactive. This is where business ethics play a vital role. In contradiction with law, ethics is proactive in nature, which is the reason for the inclusion of business ethics as a subject in business schools.

Law seeks to control concentration of economic power. It is assumed that business which has economic power will abuse it to the detriment of the public. It is rightly said that power corrupts and absolute power corrupts absolutely. Sometime ago, the central government gave complete freedom to banks to fix interest rates, which was obviously aimed at triggering off competition in the Indian economy. But all nationalised banks in India tried to keep the prime lending rate artificially high by resorting to cartelization which violates the MRTP Act 1969. The banks arrived at the particular interest rate at the behest

of the Indian Banks Association and not by taking into consideration, the cost of raising funds. Thus, the legal environment of business is one of the major factors in regulating the conduct of business.

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To understand the law-making process of the legislatures, let us take the case of law making by Parliament, as provided for in the Constitution. The process begins with a Member of Parliament, say of the Lok Sabha, introducing a bill. A bill is a draft form of a law. The Lok Sabha takes it up for discussion. Thereafter, a Bill can be accepted, rejected or referred to a 'select committee' for necessary revision. If it is accepted or passed, it is sent to the other House of Parliament, in this case, the Rajya Sabha. The Rajya Sabha can accept it, reject it or accept it with modifications. If the bill has been modified, it is sent to Lok Sabha again, for acceptance. At the end of this process, no matter from which House the bill had originated, it can be said that it has been passed by both houses of Parliament. The Bill is sent to the President for his assent. After it receives the assent of the President, it becomes an Act. An Act could be a new one or an amendment to an existing one. In either case, a new law comes into being by Parliament.

Law-making was the exclusive domain of the legislature. However, with the development of specialisation in economy and society, it was not possible for the legislature to provide the details of the law. The modern legislature, for example our Parliament, does not have the time or competence to provide every detail. Hence it lays down the overall framework through Acts and delegates the function of providing the further details to the executive. The executive is the body comprising of all the ministries and departments, headed by the Prime Minister. Each of the departments and officers working in them has expert knowledge of the working of that field. The executive provides the details for the working of the Act, by making rules, notifications, regulations and government orders, etc. These have to be in conformity with the Act. Increasingly, the bulk of the law has come to be made by the executive.

Before the rise of Governments, the domain of law was taken care of by the kings. There were laws related to taxation, Army duty. Not only the laws but also the punishments in case of non conformance were laid down The law as we see it today has its origin from the British system of governance.

Authorities, societies or customs establish laws. Retailers must abide by the laws imposed by various local, state and central authorities. Companies that run global operations must keep in mind that laws in effect in India may not apply in other countries. Conversely, other countries have laws that India may not have. When a company breaks established laws, it must pay the consequences for illegal activity. Consequences may include paying a fine, providing restitution to affected parties, publicly admitting to crimes and in severe situations, jail time for the individuals who committed the crime. Frequently, the negative publicity generated by law-breaking hurls a company into bankruptcy. On any business issue, even if it is a small one, not one but several Acts may apply. As we know, each Act comes with its set of rules, notifications and orders. Thus, legal aspects of business comprise a network of acts, rules, notifications, government orders and judgments of the courts. In order to understand law in a comprehensive way, we must study all of them. However, we are not legal professionals so we will be concentrating on the Acts.

Legalities of retail are important to all retail professional because the law says "*ignorantia juris non excusat*" which means that "Ignorance of law is no excuse". So, let us take a closer look at laws and understand how they may affect various areas of retail business.

Sale of Goods Act, 1930

This is an Act to define and amend the law relating to the sale of goods. Transactions in the nature of sale of goods form the subject matter of the Sale of Goods Act, 1930. The Act covers topics such as the concept of sale of goods, warranties and conditions arising out

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of a sale, delivery of goods and passing of property and other obligations of the buyer and the seller. It also covers the field of documents of title of goods and the transfer of ownership on the basis of such documents. Originally the law relating to sale of goods was contained in Chapter VII of the Indian Contract Act, 1872. The same was repealed and re-enacted by the Sale of Goods Act, 1930. The Act came into force on 1st July, 1930. It extends to the whole of India except Jammu and Kashmir.

Though it is not possible to discuss about the sale of goods act in depth, some important definitions from sale of goods act are given below:

Contract of sale or sale: Section 4 defines a contract of sale as a contract whereby the seller transfers the property in goods to the buyer for a price.

Goods: Goods means every kind of movable property, other than actionable claims and money; and includes stocks and shares, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before sale or under the contract of sale. Thus, things like trademarks, patents copyright, goodwill, water, gas, electricity are all goods and therefore, may be the subject matter of a contract of sale.

Price: Price means the money consideration for the sale of goods. Price is an integral part of a contact of sale. If price is not fixed or is not capable of being fixed, the contract is void ab initio.

The Standards of Weights and Measures Act, 1976

The Standard of Weights and Measures Act, 1976 was enacted to establish standards of weights and measures, to regulate inter-state trade or commerce in weights, measures and other goods which are sold or distributed by weight, measure or number, and to provide for matters connected therewith or incidental thereto. The Act extends to the whole of India.

When commodities are sold or distributed in packaged form in the course of inter-State trade or commerce, it is essential that every package must have a:

- Plain and conspicuous declaration thereon showing the identity of the commodity in the package,
- The net quantity in terms of the standard units of weights and measures and if in nos., the accurate number therein,
- The unit sale price of the commodity and the sale price of that particular package of that commodity,
- The names of the manufacturer, and also of the packer or distributor, should also be mentioned on the package.

In this regard the Packaged Commodities Rules were framed in 1977. These Rules extend to the whole of India and apply to commodities in the packaged form which are, or are intended or likely to be sold, distributed or delivered or offered or displayed for sale, distribution or delivery or which are stored for sale, or for distribution or delivery in the course of inter-state trade and commerce.

Prevention of Food Adulteration Act, 1954

The Prevention of Food Adulterate on Act, 1954 was established on 1st June, 1955. Applicable to the whole of India, its objective is to make provisions to ensure that adulteration of food is prevented.

What is Adulterated Food?

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An article/item of food is considered to be adulterated if:

(*a*) it is not of the kind, substance or quality deserved by the consumer or that it poses to be;

(*b*) it has any substance that affects its quality or is made in a manner that might harm its nature, substance or quality;

(*c*) any part of the article has been interfered with to have an adverse impact on its overall quality, or it is substituted by an item of inferior quality;

(*d*) its preparation, and packaging does not conform to sanitary standards and renders it harmful to health;

(*e*) it contains, partially or wholly, army nuclear, rotten, disgusting or diseased animal or vegetable matter, is infested by insects, or in any other way unfit to be consumed by humans;

(*f*) it has been taken or formed from a sick animal;

(*g*) it has any element that is poisonous or harmful to health;

(*h*) its container is made up of any poisonous or other substance that is injurious to health;

(*i*) it has used any colouring or preservative beyond the recommended quantity, or that is harmful;

(*j*) its quality or purely do not conform to standard regulation, or any constituent is present in other than the prescribed standard.

Intellectual Property Right

"Property" allows the owner enjoyment without interference. The owner can use it, gift it, sell it and even destroy it. Some property is known as movable property. Examples of this would be televisions and computers. Immovable property refers to things which are permanently fixed to the ground, like land and buildings. On the same line, we create intellectual property. It is intellectual because it is not a tangible thing, like movable or immovable properties. Yet, when applied in the actual world, it can create useful and valuable things. The use of the ideas is the prerogative of the person who thinks of them, and thus, we create a property in it.

Intellectual property emerges from human creativity, innovation and engagement. It takes different forms, like ideas, inventions, literary works, designs, music, films, computer software and industrial processes.

Intellectual property rights have been classified into patents, copyrights, trademarks and designs. As these are properties; they can be owned, controlled, leased and traded.

Property rights create ownership. However, ownership is subject to regulations, control and curtailment, for the larger social good. Thus, the state can authoritatively acquire land from individuals for public purposes, like making of roads, airports, industries, etc. While individuals may be free to sell their property, the State may fix the maximum selling price. Similarly intellectual property is also subject to conditions and constraints in the interest of the larger social good.

There are different laws on intellectual property. One kind of intellectual pursuit leads to the creation of new substances, products, devices, technologies, methods or processes, which are of value. These are protected under the Patents Act. Another kind of expression of the human intellectual is in the field of art, literature, music, films and broadcasts. These are protected as copyrights under the Copyright Act. A person can create a new shape, configuration, pattern or ornamentation, which itself can be of value. For example, a plastic

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chair may be molded in a particular shape or a sports shoe may be designed and shaped in a particular manner. Such designs are as much a result of engagement of the human mind, and are protected under the Designs Act.

The most important among the intellectual properties in India, however, is of the trade mark. It is a different kind of intellectual property from one mentioned above. There is nothing intrinsically valuable about a trademark. However, a trademark, in the minds and imagination of the consumers, becomes the very identity of the firm. Appropriating a trademark is equivalent to appropriating its goodwill, earned through product innovations and advertisements. Trade mark protection in India is covered by the Trade Mark Act, 1999.

The Patents Act, 1970

The Patent Act, 1970 came into force on 20.4.1972 replacing Indian Patents and Designs Act, 1911. "Inventions" are a subject matter of patents. In India, the Patents Act, 1970, deals with patenting of inventions. The broad arrangement is as follows: a person claiming to be the inventor, applies to the Controller of patents, for patent rights. The controller checks the claim with respect to novelty and usefulness of the idea and other requirements of the law. If the application is successful, the person gets a patent right for a certain number of years. During this period, no one can use the invention without an authorization from the person.

Under the Patents Act, 1970, the Government of India has created the office of the Controller of Patents. The head office is at Kolkata and there are branch offices at Mumbai, Delhi and Chennai. An application for the grant of a patent can be made by an inventor or any other person to whom the inventor has given the right. A patent is a monopoly right in the use of an invention. Not all inventions can be patented. The act stipulates the conditions under which a patent is to be granted. The application for patent if referred to by the controller to the examiner. The examiner checks whether the application complies with the requirements of the Act. He also checks if the invention has already been published or claimed by some other person. After the thorough examination of the application the controller office, communicates the objections if any and expects the applicant to resolve the objections. In case of non removal of objections by the applicant, the Controller refuses to grant a patent to the application. If the applicant is successful in removing the objections, the controller advertises the application in the official gazette. This is towards giving the opportunity to the public to raise objections to the grant of the patent. After the successful disposal of all objections, a patent is granted.

Copyright Act, 1957

An act to amend and consolidate the matter relating to copyrights. Copyright is about the right to copy. It is based on the notion that people who create or produce creative work, have a right to decide how the fruits of their talent, skill and labour should be reproduced. It thus provides the economic foundation for sustaining and fostering creativity. Without this protection, nobody would be encouraged to be creative. In the case of India, the law on copyright protection is contained in the Indian Copyright Act, 1957.

Earlier, the principle of copyright was relevant mainly for the publishing business, film industry and music industry. However, much has happened in India since the last 20 years, which has made the concept of copyright relevant for all. Firstly, the publishing, music, cinema and television industry has vastly expanded. Secondly, copyright law has found new applications in protecting the value created in the information technology industry, including computer software and material put up on the internet. Thirdly, in conjunction with trademark protection, copyright has become an important means of protecting goods and services from passing off.

Trade Marks Act, 1999

An Act to amend and consolidate the law relating to trade marks, to provide for registration and better protection of trade marks for goods and services and for the prevention of the use of fraudulent marks. Parliament enacted the Trade Marks Act in 1999 replacing the Trade and Merchandise Marks Act, 1958. The new Act was put into effect from September 2003. The new law has been enforced in keeping with the commitments made by India as a signatory to the Trade Related to Intellectual Property (TRIPS) agreement under the General Agreement on Trade and Tariff (GATT). If the Act of 1958 was 'nationalist' in the sense that it aimed at reducing the presence of foreign trade marks and guarding the marks of domestic firms, the new law has reversed the tide by giving an overwhelming protection to foreign trade marks.

Consumer Protection Act, 1986

An Act to provide for better protection of the interests of consumers and for that purpose to make provision for the establishment of consumer councils and other authorities for the settlement of consumers' disputes and for matters connected therewith.

In order to protect the consumers from exploitation and to save them from adulterated and substandard goods and deficient services the Consumer Protection Act came into force on 15th April, 1986 and it applies to the whole of India except the State of Jammu and Kashmir.

A consumer is defined as any person who buys goods for a purpose other than commercial purpose.

The Act is helping the consumers by creating bodies for settlement of consumer disputes. To seek remedies, a consumer would need to go to a local civil court. These courts have a backlog of cases. Besides courts have to follow procedures, where a lawyer would represent the consumer, as a result, justice from these courts is not only expensive, but also delayed. Consumers in the ordinary course would rather forgo their rights, than go to a court of law. The consumer protection act has remedied this by providing for a speedy and simple redressal of consumer complaints by creating quasi-judicial machinery. The consumer dispute redressal agency has set up three levels of such redressal agencies. All the forums have the power of the courts, but follow simpler and quicker procedures.

1. **District Forum**: It consists of a president and two members. The president has to be qualified to be a district judge, while the others are eminent persons from various fields. The district forum has the power to take up cases where the value of the goods and services and the compensation demanded are up to Rs. 20 lakh.
2. **The state commission**: The state commission, like the district forum, has a qualified legal person as the president and two eminent members. A person can go to the state level body in appeal from the district forum. Also, if the value of the goods, services and damages is between Rs. 20 lakh and Rs. one crore, the consumer can go directly to the forum.
3. **The National commission**: The president of this commission is a qualified law person and the other two members are other eminent and knowledgeable persons. A consumer can go to the National forum in appeal from the state commission, or if the value of the goods, services and damages is more than Rs. one crore.

A consumer can directly give a complaint or send his complaint through post to the appropriate forum/commission. The complaint should be addressed to the president of the forum/ commission.

Essential Commodities Act, 1955

An Act to provide, in the interest of the general public, for the control of the production, supply and distribution of, and trade and commerce in certain, commodities.

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Monopolies and Restrictive Trade Practices Act 1969

An Act to provide that the operation of the economic system does not result in the concentration of economic power to the common detriment, for the control of monopolies, for the prohibition of monopolistic and restrictive trade practices and for matters connected therewith or incidental thereto.

The Monopolistic and Restrictive Trade Practices Act, 1969, was enacted

- To ensure that the operation of the economic system does not result in the concentration of economic power in hands of few,
- To provide for the control of monopolies, and
- To prohibit monopolistic and restrictive trade practices.

The MRTP Act extends to the whole of India except Jammu and Kashmir.

Restrictive Trade Practice

A restrictive trade practice is one which

- hampers, twists or confines competition in any way;
- hinders movement of capital or resources into production;
- is responsible for engineering prices or conditions of delivery, or influences movement of supplies in the market so as to burden the consumer with unnecessary costs and restrictions.

The Commission is empowered to look into any restrictive trade practice in the following events:

- If any trade association, consumer or registered consumer association brings a complaint before it;
- The Central or State Government refers a matter to it;
- If it gets to know of such a case on its own.

On receiving a complaint, the commission investigates the matter. Thereafter, if it finds that the practice is against the interests of the public or of any consumer, it may recommend that:

- The practice to sopped or not repeated;
- The agreement pertaining to the concerned practice be cancelled or modified;
- The party engaged in the restrictive trade practice take action to ensure that the same is not against the public interest.

The Commission, however, cannot make any order regarding

- an agreement between buyers concerning foods bought by them for use and not for resale;
- a trade practice that is has been ordered by a valid legislation.

The Shops and Establishments Act, 1953

Objectives

- To provide statutory obligation and rights to employees and employers in the unorganized sector of employment, *i.e.*, shops and establishments.

Check Your Progress

1. What is "concentration of economic power". Is it good or bad, explain with an example.
2. Explain the law making of legislature in India?
3. Before the Governments came into existence, how was the law maintained by a state?
4. What does ignorantia juris non-excusat mean?
5. Define "contract of sale'.

Scope and Coverage

- A state legislation; each state has framed its own rules for the Act.
- Applicable to all persons employed in establishments with or without wages, except the members of the employer's family.
- State government can exempt, either permanently or for a specified period, any establishments from all or any provisions of this Act.

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Main Provisions

- Compulsory registration of shop/establishment within thirty days of commencement of work.
- Communications of closure of the establishment within 15 days from the closing of the establishment.
- Lays down the hours of work per day and week.
- Lays down guidelines for spread-over, rest interval, opening and closing hours, closed days, national and religious holidays, and overtime work.
- Rules for employment of children, young persons and women.
- Rules for annual leave, maternity leave, sickness and casual leave, etc.
- Rules for employment and termination of service.
- Maintenance of registers and records and display of notices.
- Obligations of employers.
- Obligations of employees.

When to Consult and Refer

- At the time of start of an enterprise.
- When framing personnel policies and rules.

Government Action in Case of Illegal Issues

The buying, selling, production, marketing and many other functions of a business have to be conducted within a certain framework of legal environment. The decision-making process of business from its inception will be guided by law. Certain conduct is illegal and business which commits acts or omissions declared to be illegal is subject to legal actions. There may be fines or imprisonment if conduct is declared crime.

Further, law provides a mechanism by which disputes between different parties are settled. Thus, there may be a dispute between a business enterprise on the one hand and employee, customer, government, dealer, creditor, debtor, etc on the other. If a shopkeeper sells a defective product to a consumer, then the latter has a number of remedies under different legal provisions.

10.4 ETHICAL ISSUES

It is not easy to make ethical decisions in business. Bring a food person and having high ethical standards is one thing, tackling tough choices at work quite another. People with limited business experience have often to face complex issues and decide, for instance, whether it is alright to breach the client's confidentiality, whether it is morally correct to harm a client for the safe of public welfare, deceiving a client for his own food is ethical, and so on.

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On a routine basis, business executives come across two types of ethical issues: micro and macro. Under micro management issues come anothers like conflicting interests, rights of employees, just performance appraised sexual harassment, proprietary information, discrimination, and giving or taking gifts. Macro management issues are concerned with corporate social responsibility, product liability, environmental ethics, layoffs and down-sizing, corporate accountability, and the like.

Controlling or regulating the ethical behaviour at the individual, corporate and government level is nothing new. Way back is the 18th century B.C., bribery was labelled a crime in Babylon by the Code of Hammurabi. The ethical vode of most societies are similar in that they all forbid murder, bodily harm, and attacks on personal honour or name. Modern day systems of law and public justice also define and enforce certain rights and duties and have provision for punishing those who deviate from the same.

However, the law is a strange creature and may not always permit or require that which is ethically correct. Thus, some laws permit disloyalty toward friends, promise breaking and deception of sorts.

While some professions can be influenced by local, state and central regulatory acts, not all ethical issues can be settled by the courts. An act may judged differently in the eyes of the law and by ethics or moral principles. Similarly, not all ethical conflicts can be resolved by legal means.

By and large, professions resolve the problem of institutionalizing business ethics by implementing codes of ethics, stating corporate goals, conducting training and educational programmes in the subject, having an inbuilt judicial system to redress grievances, and even creating telephone hot lines as that employees can report ethical violations confidentially.

Generally, a code of ethics is developed by a professional group within the profession. The degree of strength or severity of the code varies according to the demands of the profession. Thus, in medicine the code of ethics for physicians is more specific than for nurses, as the behaviour and consequences of the former are more serious. Thus these codes help members to adhere to certain standards of behaviour and principles in their duty towards one another, to clients and society at large.

Further, professions requiring a licence from a state-authorised board to vouch for the competency and moral principles of its members, make it binding for their members to prevent unlawful practices.

Another term for ethics is moral philosophy. It has to do with systematizing, defending and suggesting concepts of right and wrong conduct. Ethical theories today are divided by philosophers into metaethics, normative ethics and applied ethics.

Metaethics deals with ethical principles-Their origin, meaning, whether they are social inventions or have to do with individual emotions. The focus here is on universal truths, God's will, what role is played by reason in ethical judgement, and what ethical terms mean.

Normative ethics tackles the more practical aspect of deciding the moral standards regulating right and wrong behaviours, such as desirable food habits, our duties, and the consequences of our conduct.

Applied ethics looks into specific controversial matters like abortion, infanticide, animal rights, homosexuality, nuclear war and tries to resolve them with the help of conceptual tools of the others two fields. There is no five line of distriction among the three. For instance, while abortion, involving controversial behaviour, is an applied ethical topic, it also depends on general normative principles of right to self rule and life, as well as metaethical considerations about the origin and application of rights.

Metaethics derived forms the term 'meta' meaning 'after' or 'beyond', implies the study of how ethical ideas originated and what they mean. It is less precisely defined the normative and applied ethics.

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Normative ethics, as the very name indicate, look for ideal nouns of proper behaviour. It follows the Golden Rule, under which all actions are judged against a single principle, whereas other normative theories rely on a set of foundational principles.

Applied ethics undertakes analysis of specific, controversial moral issues like abortion, animal rights, or euthanasia. Its recent subdivisions are medical ethics, business ethics, environmental ethics, and sexual ethics. Thus, is order to be an applied ethical issue, a matter must have people for and against it, and must be distinctly moral.

Illegal and Unethical Issues

A retailer has to face various issues that are illegal and unethical as given below:

1. **Employee theft:** This happens when one of our employees steals products and money. Today employee theft has risen to higher levels not only in quantity but also in quality. Today a major threat to any retail business is espionage and the leakage of confidential information.
2. **Customer theft:** Although the majority of retail theft is by employees, customer shoplifting is also a big concern for retailers. Ways to reduce shrinkage due to customer theft include supervising the selling floor, making would-be shoplifters feel uneasy, and getting employees involved in the prevention process.
3. **Fraud:** This includes misreporting of accounts, stock records and cash register by employees.

Measures to be Taken

1. **Supervise the selling floor:** The manager should walk around the floor once in a while to check and alert the employees, customers, and security guards.
2. **Organize staff supervision:** To prevent customer theft, ask employees to maintain frequent eye contact with suspicious customers.
3. **CCTV:** Arrange for the closed circuit TVs, so that both employees and customers can be watched without moving around.
4. Install RFID tags and security devices to alarm when the unbilled goods are being carried out of the store.

Pre-employment integrity check: Before employing a person, carefully observe and verify his past for suspicious clues.

10.5 SUMMARY

Many ethics, rules and laws pertain to the operation of a retail business. The retailer must be aware of these laws and rules for every geographic area in which it competes. In addition to the central government laws, the retailer must abide by regional and local rules and regulations that affect the business, as well as international laws, if the retailer has global presence. Although the concepts of law and ethics are related, they actually differ from each other. Ethics involve concepts of what is right and wrong and are often based on moral and religious beliefs. Laws are rules established by society. Differences in ethical perspectives explain why different people can have different views on whether an act is right or wrong. In retailing, ethical conflicts can arise from the conflict between profit and principles. Retailers are often under pressure to show profits, and this can cloud ethical judgements. Employee and customer theft are the two biggest sources of inventory shrinkage. Retailers can reduce theft by implementing loss prevention strategies such as pre-employment screening, supervision of the selling floor, and employing devices to deter theft.

Check Your Progress

6. What is adulterated food?
7. Define Intellectual property right.
8. Discuss the difference between a patent, copyright and a trademark.
9. How do you define a restrictive trade practice?
10. What is "Code of ethics" and how is it useful?

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There are several laws that affect retailing. Consequences for breaking these laws range from paying fine to imprisonment. Retail laws have the greatest effect on retail tactics. Nonetheless, every area in the retail management has the potential to be affected by ethics and laws. The ethical and legal environment has played and will continue to play, an important role in the retail industry.

10.6 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The monopolies enquiry commission recommended the enactment of law to control concentration of economic power in the hands of business. This led to the adoption of Monopolies Restrictive Trade Practices Act, 1969.
2. To understand the law-making process of the legislatures, let us take the case of law making by Parliament, as provided for in the Constitution. The process begins with a Member of Parliament, say of the Lok Sabha, introducing a bill. A bill is a draft form of a law. The Lok Sabha takes it up for discussion. Thereafter, a Bill can be accepted, rejected or referred to a 'select committee' for necessary revision. If it is accepted or passed, it is sent to the other House of Parliament, in this case, the Rajya Sabha. The Rajya Sabha can accept it, reject it or accept it with modifications. If the bill has been modified, it is sent to Lok Sabha again, for acceptance. At the end of this process, no matter from which House the bill had originated, it can be said that it has been passed by both houses of Parliament. The Bill is sent to the President for his assent. After it receives the assent of the President, it becomes an Act. An Act could be a new one or an amendment to an existing one. In either case, a new law comes into being by Parliament.
3. Before the rise of Governments, the domain of law was taken care of by the kings.
4. "Ignorance of law is no excuse".
5. Section 4 defines a contract of sale as a contract whereby the seller transfers the property in goods to the buyer for a price.
6. An article of food shall be deemed to be adulterated—
   - if the article sold by a vendor is not of the nature, substance or quality demanded by the purchaser or which it purports to be;
   - if the article contains any substance affecting its quality or of it is so processed as to injuriously affect its nature, substance or quality;
   - if any inferior or cheaper substance has been substituted wholly or partly for the article, or any constituent of the article has been wholly or partly abstracted from it, so as to affecting its quality or of it is so processed as to injuriously affect its nature, substance or quality;
   - if the article had been prepared, packed or kept under insanitary conditions whereby it has become contaminated or injurious to health;
   - if the article consists wholly or in part of any filthy, putrid, disgusting, rotten, decomposed or diseased animal or vegetable substance or being insect-infested, or is otherwise unfit for human consumption;
   - if the article is obtained from a diseased animal;
   - if the article contains any poisonous or other ingredient which is injurious to health;
   - if the container of the article is composed of any poisonous or deleterious substance which renders its contents injurious to health;

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- if the article contains any prohibited colouring matter or preservative, or any permitted colouring matter or preservative in excess of the prescribed limits;
- if the quality or purity of the article falls below the prescribed standard, or its constituents are present in proportions other standard, or its constituents are present in proportions other than those prescribed, whether or not rendering it injurious to health.

7. Intellectual property emerges from human creativity, innovation and engagement. It takes different forms, like ideas, inventions, literary works, designs, music, films, computer software and industrial processes.
8. "Inventions" are a subject matter of patents. In India, the Patents Act, 1970 deals with patenting of inventions. Copyright is about the right to copy. It is based on the notion that people who create or produce creative work, have a right to decide how the fruits of their talent, skill and labour should be reproduced. An Act to amend and consolidate the law relating to trade marks ws passed to provide for registration and better protection of trade marks for goods and services and for the prevention of the use of fraudulent marks.
9. A restrictive trade practice is a trade practice, which
   - Prevents, distorts or restricts competition in any manner; or
   - Obstructs the flow of capital or resources into the stream of production; or
   - Tends to bring about manipulation of prices or conditions of delivery or affects the flow of supplies in the market of any goods or services, imposing on the consumers unjustified cost or restrictions.
10. A code of ethics provides members of a profession with standards of behaviour and principles to be observed regarding their moral and professional obligations toward one another, their clients, and society in general. A code of ethics is generally developed by a professional society within a particular profession. The higher the degree of professionalism required of society members, the stronger and therefore more enforceable the code. For instance, in medicine, the behaviour required is more specific and the consequences are more stringent in the code of ethics for physicians than in the code of ethics for nurses.

10.7 EXERCISES AND QUESTIONS

1. Define Law and Ethics? Discuss the differences between the two.
2. Explain the various acts related to the retail industry.
3. How do you combat the employee and customer theft issues?
4. What is the importance of studying the legal and ethical issues in retail management?

10.8 FURTHER READING

1. Berman and Evans, *Retail Management*; Prentice Hall, 2004.
2. Varley Rosemary and Mohammed Rafiq, *Principles of Retail Management*; Palgrave MacMillan, 2005.
3. Levy and Weitz, *Retailing Management*; Irwin, 2004.
4. Dunne, Lusch and Gable, *Retailing*; South-Wester, 2002.
5. Davis and Ward, *Managing Retail Consumption*; John Wiley & Sons, 2002.

EXERCISE – HOW TO SOLVE A CASE STUDY

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A case or case study can be defined as a summary of a real world event whether it has happened or it is simulated.

Case studies can be classified in many different ways like small, medium and large. Small case studies are called as caselets. Simple case studies focus on one concept whereas complex ones or composite ones combine more than one area of focus. For example, a case study may be on purely marketing or a mix or marketing, finance, human resources, etc. Case studies for beginners contain questions at the end of the case, but for the advanced studies, a problem has to be identified, questions have to be framed and the appropriate solution or interpretation has to be presented.

Steps in solving a case study

1. Read thoroughly three times: The first time have an idea about what the case study is, the second time consider the important facts and paragraphs, the third time focus on the problem area or the answer areas to the questions.
2. Make a case brief: A case brief is writing the essence of the case in your own terms.
3. Identify and define the problem
4. Generate various alternative solutions
5. Weight each and every solution very carefully in terms of viability and practicality.
6. Choose the optimal solution among the alternatives, *i.e.*, the feasible solution that minimises the cost and maximises the profit with little side effects.
7. Present the solution (Keep it short and simple)

Note: *The above steps do not apply for caselets and some types of case studies.*

Caselet

Mr X appoints Y as his agent. Y enters into contract with Z on behalf of X. Y commits fraud in the transaction and thereby injures Z. X is bound to compensate Z as per the law. Analyse the topic and answer the following questions:

1. Was Mr X unethical?
2. If Mr X does not compensate, will it be illegal?
3. Judge whether the case of X compensating Z is unethical and illegal or unethical and illegal or illegal and ethical?

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Case Study: KFC IN INDIA – THE CONTROVERSIES

About the Company

Founded by Col. Harland Sanders, Kentucky Fried Chicken, better known as KFC is a division of Yum! Brands, Inc. and is based in Louisville, Kentucky, USA.

Col. Sanders began serving fried chicken during the Great Depression at his gas station in Corbin, Kentucky and then at his restaurant and motel just apposite. His clients mere mainly travellers to Florida. However, when the new Interstate Highway system in the 1950s bypassed Corbin, he decided to sell his chicken to restaurant owners throughout the United States, on agreement that he get five cents per piece of chicken. It was with Pete Harman of South Salt Lake, Utah that he opened the first Kentucky Fried Chicken outlet in 1952. In 1964, he sold the whole KFC franchising operation for $2 million. Thereafter it was sold thrice ones, the latest sale being to PepsiCo. It is now known as Yum! Brands, Inc. and is part of their Tricon Global Restaurants divisions.

The abbreviated version, KFC was adopted in 1991. One reason was to lessen the emphasis on chicken because other foods were now being offered by the chain; the second was to separate the not-so-healthy association with 'fried'; the third that the young market preferred a shorter name.

There is a certain element of mystery attached to Sanders' "secret recipe" of eleven hubs and spices, the original of which is believed to be securely locked in a vault in Louisville. According to the company, suppliers of the seasonings are unaware of each others' identity and give only parts of the recipe. Even KFC's company president has no idea of what the ingredients are. Those who do, abide by a stringent confidentiality agreement. The brand certainly cashes in on it "secret ingredient", and every now and then you find people claiming to have copies of the recipe. However, all such claims have proved to be false.

There are different reasons attributed of KFC's exclusive taste. Some say it is due to its being pressure cooked in hot oil than in a deep fryer Alton Brown of the food network show Good Eats refutes this claims on the basis that pressure cooking involves less time, while Col. Sanders was of the view that the minimum time to fry a chicken properly was 45 minutes. On the other hand, most restaurants would not adopt such a long process. Thus there is no confirmed opinion on the matter.

Others dishes served by KFC include coleslaw, all kinds of potatoes-mashed, wedges, gravy-biscuits, corn on the cob. Outside the US you have French fries and poutine, as well as Popcorn Chicken, pot pies, chicken strips, burgers, sandwiches, several desserts, and so on.

History of KFC– Time line

9/9/1890

Harland Sanders is born just outside Henryville, Indiana.

1900–1924

Harland Sanders holds a variety of jobs including: farm hand, streetcar conductor, army private in Cuba, blacksmith's helper, railyard fireman, insurance salesman, tire salesman and service station operator for Standard Oil.

1930

In the midst of the Depression, Harland Sanders opens his first restaurant in the small front room of a gas station in Corbin, Kentucky. Sanders serves as station operator, chief cook and cashier and names the dining area "Sanders Court & Café."

1936

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Kentucky Governor Ruby Laffoon makes Harland Sanders an honorary Kentucky Colonel in recognition of his contributions to the state's cuisine.

1937

The Sanders Court & Café adds a motel and expands the restaurant to 142 seats.

1939

The Sanders Court & Café is first listed in Duncan Hines' "Adventures in Good Eating."

Fire destroys The Sanders Court & Café, but it is rebuilt and reopened.

The pressure cooker is introduced. Soon thereafter Colonel Sanders begins using it to fry his chicken to give customers fresh chicken, faster.

1940

Birthdate of the Original Recipe

1949

Sanders Marries Claudia Price

1952

The Colonel begins actively franchising his chicken business by travelling from town to town and cooking batches of chicken for restaurant owners and employees.

The Colonel awards Pete Harman of Salt Lake City with the first KFC franchise. A handshake agreement stipulates a payment of a nickel to Sanders for each chicken sold.

1955

An interstate highway is built to bypass Corbin, Kentucky. Sanders sells the service station on the same day that he receives his first social security check for $105. After paying debts owed, he is virtually broke. He decides to go on the road to sell his Secret Recipe to restaurants.

1957

Kentucky Fried Chicken first sold in buckets

1960

The Colonel's hard work on the road begins to pay off and there are 190 KFC franchisees and 400 franchise units in the US and Can.

1964

Kentucky Fried Chicken has more than 600 franchised outlets in the United States, Canada and the first overseas outlet, in England.

Sanders sells his interest in the US company for $2 million to a group of investors headed by John Y. Brown Jr., future governor of Kentucky. The Colonel remains a public spokesman for the company.

1965

Colonel Sanders receives the Horatio Alger Award from the American Schools and Colleges Association.

1966

The Kentucky Fried Chicken Corporation goes public.

1969

The Kentucky Fried Chicken Corporation is listed on the New York Stock Exchange.

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1971

More than 3,500 franchised and company-owned restaurants are in worldwide operation when Heublein Inc. acquires KFC Corporation.

1976

An independent survey ranks the Colonel as the world's second most recognizable celebrity.

1977

Colonel Sanders speaks before a US Congressional Committee on Aging.

1979

KFC cooks up 2.7 billion pieces of chicken. There are approximately 6,000 KFC restaurants worldwide with sales of more than $2 billion.

12/16/1980

Colonel Harland Sanders, who came to symbolise quality in the food industry, dies after being stricken with leukemia. Flags on all Kentucky state buildings fly at half-staff for four days.

1982

Kentucky Fried Chicken becomes a subsidiary of R.J. Reynolds Industries, Inc. (now RJR Nabisco, Inc.) when Heublein, Inc. is acquired by Reynolds.

1986

PepsiCo, Inc. acquires KFC from RJR Nabisco, Inc.

1997

PepsiCo, Inc. announces the spin-off of its quick service restaurants — KFC, Taco Bell and Pizza Hut — into Tricon Global Restaurants, Inc.

2002

Tricon Global Restaurants, Inc., the world's largest restaurant company, changes its corporate name to YUM! Brands, Inc. In addition to KFC, the company owns A&W® All-American Food® Restaurants, Long John Silvers®, Pizza Hut® and Taco Bell® restaurants.

2006

More than a billion of the Colonel's "finger lickin' good" chicken dinners are served annually in more than 80 countries and territories around the world.

KFC – INDIA

Foreign fast-food companies were allowed to enter India during the early 1990s due to the economic liberalisation policy of the Indian Government. KFC was among the first fast-food multinationals to enter India. On receiving permission to open 30 new outlets across the country; KFC opened its first fast-food outlet in Bangalore in June 1995.

Bangalore was chosen as the launch pad because it had substantial upper middle class population, with a trend of families eating out. It was considered India's fastest growing metropolis in the 1990s. Apart from Bangalore, PepsiCo planned to open 60 KFC and Pizza Hut outlets in the country in the next seven years. However, KFC got embroiled in various controversies even before it started full-fledged business in India.

About The Controversy

The controversy though multifaceted, revolves around two themes. One of them is "PETA protesting cruelty against animals" and the second being the state health department quoting the adulteration of food.

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PETA and THE CRUELTY AGAINST THE CHICKEN

*PETA and their PROTEST**

In recent years the chicken has been the centre of controversy/protest by PETA (People for Ethical Treatment of Animals). In Bangalore, on 20 August 2003, PETA activists brought a five-foot tall chicken, feathers et al., on a pair of crutches outside KFC's Indian outlet. They also carried placards reading 'Quit India' and 'Stop Playing Foul'. The chicken was the symbol of a peaceful protest to call attention to the alleged abuse of birds in KFC's poultry farms. The event certainly received much coverage by the media.

Drawing a comparison between the protest and history, the special projects coordinator of PETA, Bijal Vachcharajani explained that similar to Gandhi's call to the British to Quit India, they were unwilling to put up with cruel multinationals. PETA India even wrote to the managing director of Tricon Restaurant International, KFC's parent company, to shut down their only KFC outlet in the country. In the absence of a reply, this protest was held.

If PETA is to be believed, their two years of sustained efforts for better animal welfare standards in poultry farms has led to the likes of McDonald's and Burger king improving the treatment of animals specially raised and slaughtered for food. The exception was KFC.

The mater can be understood in detail by reading the following extracts from the PETA's website.

The following are the extracts from the PETA'S web site, which help us in understanding the matter in detail:

Extract 1: People for the Ethical Treatment of Animals (PETA) has obtained graphic video footage documenting the daily suffering of thousands of chickens on a factory farm that supplies fast-food restaurant chain KFC. PETA received this footage from a filmmaker who blew the whistle on Venkateshwara Hatcheries in Pune and exposed the farm's abusive practices. PETA revealed the video footage for the first time at a news conference today in Bangalore. PETA founder and director Ingrid Newkirk, who grew up in India, travelled to Bangalore especially for this presentation.

Some of the abuse depicted by PETA at the news conference, and which can be seen at PETA India.com are:

- Chickens stuffed into overcrowded warehouses, pushing each other to reach their food
- Birds whose weak legs crumple beneath them and are immobilized by leg deformities caused by breeding for weight and overfeeding
- A barn littered with the carcasses of chickens that had died from fatal diseases
- Dirty and injured chickens who never receive medical attention
- Chickens suffering at the hands of callous workers who neglect to observe even minimal standards of animal welfare

This footage directly contradicts KFC's self-serving statement to the media that its supply farms strictly adhere to animal-welfare standards.

Having failed to convince Yum! Brands to conform to a more compassionate view of animals even over a period of two years, PETA India and its affiliates the world over are trying to get consumers to demand to shut-down of the only KFC outlet in India. At the same time, it is urging people to switch to a vegetarian diet as a mark of compassion and to stay away from places like KFC.

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* *(excerpt from a news paper)*

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The natural lifespan of chickens in said to be 10-12 years but the likes of KFC cut it down to 8 weeks. Considered to of nearly equal intelligence as dogs or cats, and friendly, loving creatures in their natural surroundings, they are one of the most ill-treated animals on this earth.

According to PETA Director Ingrid Newkirk, although the KFC portrays to the world that its chicken suppliers follow humane standards, the reality is quite cruelly different.

Extract 2: Failure of KFC to Get Their Supplier Farm Venkateshwara Hatcheries to meet Humane, Hygiene and Legal Standards for Animal Rearing and Handling.

KFC's chickens each have less space than a standard-sized sheet of paper. Chickens are stuffed by the tens of thousands into overcrowded sheds, where they have no space to stretch their wings or move about freely. Owing to the lack of space in the shed, chickens stamp and climb on each other to get from one place to another. Chickens can be seen struggling and pushing other chickens aside to get to their food. The air in these sheds is heavy with ammonia fumes, making it difficult to breathe.

KFC's chickens suffer from crippling leg deformities for their entire lives. Birds are fed genetically modified feed in order to accelerate their growth rate, making them top-heavy. Ailments such as extreme obesity and fatty livers and kidneys, heart attacks, septicaemia and deformities caused by arthritis are a common sight. This abnormal weight gain, along with other ailments, causes stress to young bones, making the chickens' legs crumple beneath them to the extent that they cannot even get to their feed. These crippling leg deformities then lead to diseases like arthritis and osteoporosis.

KFC's chickens suffer from fatal heart attacks resulting from poor breeding. Because of unsanitary living conditions along with increased growth rate, chickens die an early death. These chickens fall prey to ailments like heart attacks, fatty livers and kidneys, arthritis. According to the UK-based Animal Aid Organization, 'Many broiler chickens also die from ascites: Their growth rate is so rapid that their heart, lungs and circulatory systems struggle to maintain sufficient oxygen levels. This results in breathlessness and distended abdomens'. In chickens, this disease is believed to be caused by the fact that the birds' heart and lung capacity cannot keep up with their rapid growth rate.

KFC's chickens are slaughtered before they are 6 weeks old. When living in their natural surroundings, chickens live up to 10 years. However, at KFC factory farms, they are fed a steady dose of growth promoters, and they are slaughtered at 35 to 45 days. The reason behind this accelerated growth is a high-protein diet and a steady diet of growth promoters.

KFC's chickens receive little to no veterinary care. Owing to human negligence, the chickens have to suffer throughout their lives. Unhygienic conditions, growth-promoting feed and improper care on the part of the handlers lead to the rapid spread of dangerous diseases among chickens. The consequences of such diseases are usually fatal.

KFC's chickens suffer at the hands of callous workers. These birds routinely suffer broken bones from callous handling. The workers roughly grab them by their legs and stuff them into crates. It seems to be a common occurrence for workers at KFC supply farms to walk through an overcrowded shed bursting at the seams with chickens and nonchalantly stamp on a few who dare get in the way. A worker carelessly lights lamps and lets flames fall on the terrified birds. The air inside these filthy barns reeks of ammonia fumes, making it difficult for the birds even to breathe. These birds lie unattended at the farms, writhing in pain because of the carelessness of workers.

KFC's chickens suffer during transport. All chickens are subjected to the or deal of catching, transportation and slaughter. The birds are typically grabbed by the feet and thrust into crates before being loaded onto lorries or are caught, three chickens in one hand and two in the other, and slammed into the lorry. Many suffer additional injuries at this time, and hundreds of chickens can die from a panic-induced crush each time the

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catching gang enters the shed. Others die during the journey to the killing plants, often from heart attacks. Injuries and wounds account for the other fatalities. The most common injury is dislocation of the femur (the bone between the hip and the knee). This is almost certainly the result of rough handling by catching teams. Soft young bones break, and joints (often already painfully deformed) become dislocated when birds are caught.

According to the Prevention of Cruelty to Animals Act, 1960, it is an offence to do the following:

- convey or carry, whether in or upon any vehicle or not, any animal in such a manner or position as to subject him or her to unnecessary pain or suffering
- keep or confine any animal in any cage or other receptacle which does not measure sufficiently in height, length and breadth to permit the animal a reasonable opportunity for movement
- fail to provide [ones] animal with sufficient food, drink or shelter

The Transport of Animals (Amendment) Rules, 2001 Chapter VII: TRANSPORT OF POULTRY BY RAIL, ROAD AND AIR

1. General requirement — In transport of poultry by rail, road or air — (*a*) poultry shall not be exposed to the sunlight, rain and direct blast of air during transport.
2. Day-old chicks and turkey poults — In transport of day-old chicks and poultry by rail, road and air (*b*) personal attention shall be given by the consignor or the forwarding agent to ensure that all consignments are kept out of direct sunlight, rain and heat;
3. Poultry other than day-old chicks and turkey poults — In transport of poultry other than day old chicks and turkey poult by rail, road or air (*a*) The poultry to be transported shall be healthy and in good condition and shall be examined and certified by a veterinary doctor for freedom from infectious diseases and fitness to undertake the journey. (*c*) Poultry shall be properly fed and watered before it is placed in containers for transportation and extra feed and water shall be provided in suitable troughs fixed in the containers.
4. Road Travel — In transport of poultry by road the container shall not be placed one on the top of the other and shall be covered properly in order to provide light, ventilation and to protect from rain, heat and cold air.

KFC and the malnutrition

From the very first day of its restaurant being opened, KFC faced problems in the form of protests by angry farmers led by the Karnataka Rajya Ryota Sangha (KRRS). The farmers leader, Nanjundaswamy, who led these protests, vehemently condemned KFC's entry into India, saying that it was unethical to promote highly processed 'junk food' in a poor country like India with severe malnutrition problems. Nanjundaswamy expressed concern that the growing number of foreign fast-food chains would deplete India's livestock, which would adversely affect its agriculture and the environment. He argued that non-vegetarian fast-food restaurants like KFC would encourage Indian farmers to shift from production of basic crops to more lucrative varieties like animal feed and meat, leaving poorer sections of society with no affordable food.

KRRS held a convention on November 1, 1995 to protest the entry of fast-food multinationals and the Westernisation of local agriculture. National banks, insurance companies, political parties and non-governmental organizations supported the convention. All parties attending the convention agreed that India needed a new 'Quit India' movement against junk-food companies.

Amidst these vociferous protests, the Indian Government tried to justify its actions by saying that economic liberalisation policies would attract multinationals and their opening businesses would create employment and develop infrastructure. However, Nanjundaswamy

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differed with the government's contentions. He argued that fast-food companies brought jobs only for a handful of educated people and displaced the poor majority. He cited the example of Venkateshwara Hatcheries, which supplied KFC with broilers after closing down its restaurants in Mumbai and Pune as part of a deal with KFC.

On January 30, 1996, KFC's Bangalore outlet again witnessed protesting farmers carrying "Boycott KFC" signs. Media reports stated that around 100 irate farmers entered the restaurant, smashed windows, broke furniture and ransacked the cash box, demanding that KFC should leave India. KFC's billboards were destroyed across the state by agitators. Following the violence, several fanners were imprisoned. On February 03, 1996, Nanjundaswamy was also jailed on charges of looting, attempt to murder and other offences. Despite these setbacks, KRRS did not relent and continued its protests against Western fast-food joints in general and KFC in particular. KRRS maintained that the entry of Western fast food chains in India would threaten the livelihood of more than 70 per cent of the Indian population, which depended on agriculture. They regarded multinational food companies as the first step toward the destruction of India's food security.

Nanjundaswami also said that apart from the threat to local agriculture, another negative aspect of fast-food chains like KFC was large-scale factory farming of chickens. He maintained that the chicken served by KFC was full of chemicals because the birds were reportedly being given hormones, antibiotics and arsenic to fatten them quickly. He called the chickens "chemically poisoned. KRRS got a boost when Maneka Gandhi, former Environment Minister and animal activist, attacked KFC stating that they served over-priced processed chicken, which was artificially raised and refried several times. Ecologists also joined the farmers' protests by saying that the opening of fast-ood joints meant more trash, including plastic lids, paper cups, bags and extra condiments, on the highways and sidewalks.

Non-Conformity with Food Products Regulations

In August 1995, just a couple of months after its launch, KFC's Bangalore outlet faced a major crisis when Municipal Food Inspectors visited the restaurant and found that KFC's 'hot & spicy' seasoning contained nearly three times more monosodium glutamate (MSG, popularly known as Ajinomoto a flavor enhancing ingredient) than allowed by the Indian Prevention of Food Adulteration Act, 1954 (IPFAA).14 (Refer Exhibit II for the definition of adulterated food).

Used in a wide range of fast-foods, MSG had been associated with behavioural disorders, hyperactivity, severe brain damage in rats, nausea and headache among adults and worst, its teratogenic effects. Intake by pregnant women leads to retardation and birth defects in offsprings. Unborn children were considered to be at grave risk as MSG concentrated in the placenta. Children under 12 were also advised against taking MSG as it retarded brain development. The IPFAA fixed an MSG ceiling in fast foods at one per cent. The Food Inspectors' examination, followed by laboratory tests and analysis found that KFC's chicken contained 2.8 per cent of MSG.

The MSG controversy reached a crescendo on September 13, 1995. The Bangalore City Corporation revoked the restaurant's license and directed the police to close it on the ground that KFC had not only exceeded the legal MSG limits but had also failed to disclose what seasoning it used in its preparations. It charged KFC with serving food that was 'adulterated, misbranded and unfit for human consumption.' Refuting the charges, Sandeep Kohli, managing director of KFC India said, "We serve the same product in Bangalore as we do in our over 9,000 restaurants in 78 countries. And we know for a fact that the level of MSG is what is within permissible norms." He further added that the health standards followed by KFC were among the best compared to other restaurants in Bangalore.

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The closure orders enraged both the local management of KFC and their US bosses. PepsiCo's Senior Research Department argued that India lacked the laboratory equipment needed to accurately test the level of MSG in food products. KFC's management approached the Karnataka State High Court and obtained a stay order against the closure orders issued by the Bangalore City Corporation. The judge said the restaurant could operate as usual till full court hearings. After securing the stay order, KFC's management announced at a press conference that all they wanted was to let customers decide and if the latter did not like the company's products, it would anyway have to close shop.

To test MSG levels, an Indian business weekly — Outlook — bought samples of fried chicken from KFC and took them to the Food Research and Analysis Centre of the Federation of Indian Chambers of Commerce. The analysis showed that KFC had the highest level of MSG, much above the permitted levels. However, PepsiCo refused to accept the result of the tests and put forth the same argument that Indian labs were not well-equipped to measure the additive accurately. The Bangalore restaurant was reopened when the Karnataka High Court intervened through a stay order in favour of KFC. But, soon after reopening, KFC had to face the wrath of farmers who attacked the restaurant and destroyed the billboards of the company. KFC had to then run its business under police protection.

Undeterred by the problems at Bangalore, PepsiCo opened a second KFC outlet in Delhi, the national capital, in October 1995. KFC's management also announced that six more outlets would be opened in Delhi by the end of 1996. However, in a couple of weeks, the Delhi outlet too faced protests by a coalition of farmers, vegetarians and environmentalists. Within a couple of weeks of its launch, the Delhi restaurant had to stop its business as health officials cancelled its license on November 06,1995 on the grounds that the coating mix imported from the US contained sodium aluminum phosphate (SAP), which was hazardous to human health. KFC sought redress from the Delhi High Court and argued that the food contained no harmful chemicals and that the amount of SAP, an ingredient in baking soda, was within the limits approved by the World Health Organization and the US Food and Drug Administration. The charges were withdrawn as KFC proved that SAP was used in small quantities in the baking powder and was not harmful. The restaurant then resumed business.

KFC won a favourable order from the Delhi High Court, but this did not deter farmers' associations from resuming their protest . In December 1995, the Government of India permitted higher levels of MSG in Indian food, which meant that KFC could continue its business. The activists retaliated by taking up other issues against KFC. The Swadeshi Jagran Manch (National Awakening Forum), began a probe into the hygiene conditions at the restaurant. An inspection by food inspectors found flies buzzing around the kitchen and garbage cans just outside the restaurant premises. The Municipal Corporation of Delhi served a closure order on grounds of hygiene and sanitation. Thus, the Delhi KFC outlet was closed within 23 days of its re-opening.

Later, KFC's management decided to close the outlet permanently citing high rentals as the prime reason. They said that the outlet was hit by high rents and the cost of doing business in Delhi was not in line with its worldwide standards. Apart from this, the main ingredient — chicken, was easily available in the southern, eastern and western parts of India, but not in the north. So, procuring chicken had also become an expensive proposition for KFC. Thus, the Bangalore restaurant remained the sole KFC outlet in India for many years. However, it had to face continuous protests from PETA against the alleged cruel treatment of chickens by KFC staff and suppliers.

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QUESTIONS

1. What were the various problems that KFC faced?
2. Many unorganized retailers treat the chicken in the same way. In this context how do you defend the protest of PETA.
3. Whom and why do you support in the context of MSG controversy?
4. Discuss the key lessons that a company can learn from all these problems.
5. Discuss the legal and ethical perspectives in the above case study.

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